

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 10, 1997

REGISTRATION NO. 333-28441

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1/A

AMENDMENT NO. 1
TO
REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

QAD INC.

(Exact name of registrant as specified in its charter)

CALIFORNIA
(State or other jurisdiction
of incorporation or
organization)

7372
(Primary Standard Industrial
Classification Code Number)

77-0105228
(I.R.S. Employer
Identification
No.)

6450 VIA REAL, CARPINTERIA, CALIFORNIA 93013
(805) 684-6614

(Address, including zip code, and telephone number, including
area code, of registrant's principal executive offices)

KARL F. LOPKER
QAD INC.
6450 VIA REAL
CARPINTERIA, CALIFORNIA 93013
(805) 684-6614

(Name, address, including zip code, and telephone number, including area code,
of agent for service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE
PUBLIC:
AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

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

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

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

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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EXPLANATORY NOTE

This registration statement contains two forms of prospectuses: one to be used in connection with a United States and Canadian offering (the "U.S. Prospectus") and one to be used in a concurrent international offering outside the United States and Canada (the "International Prospectus"). The U.S. Prospectus and the International Prospectus are identical except for the front and back cover pages. Each of the pages for the International Prospectus included herein is labelled "Alternate Page."

The state of incorporation of this Registrant indicated on the initial page of this Registration Statement differs from that described in the Prospectus and Part II of this Registration Statement. The Registrant, which is currently a California corporation, intends to reincorporate in Delaware prior to the effectiveness of this Registration Statement and consummation of the Offering. The Registrant additionally intends to effect a stock split in connection with its reincorporation.

SUBJECT TO COMPLETION, DATED JULY 10, 1997

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

P R O S P E C T U S

5,750,000 SHARES

[LOGO]

COMMON STOCK

All of the shares of Common Stock offered hereby are being sold by QAD Inc. ("QAD" or the "Company"). Of the 5,750,000 shares of Common Stock offered hereby, 4,600,000 shares are being offered for sale in the United States and Canada by the U.S. Underwriters (as defined herein) and 1,150,000 shares are being offered in a concurrent international offering outside the United States and Canada by the Managers (as defined herein) (collectively, the "Offering").

Prior to this Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between \$12.00 and \$14.00 per share. See "Underwriting" for information relating to the factors considered in determining the initial public offering price. The Common Stock has been approved for listing on the Nasdaq National Market under the symbol "QADI."

Upon completion of the Offering, the current directors and executive officers of the Company will beneficially own approximately 71% of the outstanding Common Stock of the Company. See "Risk Factors--Control by Principal Stockholders."

SEE "RISK FACTORS" BEGINNING ON PAGE 5 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.

ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS (1)	PROCEEDS TO COMPANY (2)
Per Share	\$	\$	\$
Total (3)	\$	\$	\$

- (1) For information regarding indemnification of the U.S. Underwriters and the Managers, see "Underwriting."
- (2) Before deducting estimated offering expenses of \$1,800,000, payable by the Company.
- (3) The Company has granted the several U.S. Underwriters and the several Managers a 30-day option to purchase up to 862,500 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, \$ and \$, respectively.

The shares of Common Stock are being offered by the several U.S. Underwriters named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that certificates for the shares of Common Stock offered hereby will be available for delivery on or about , 1997, at the office of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

SMITH BARNEY INC.

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

[VISUAL DEPICTIONS OF USER INTERFACE FOR MFG/PRO AND QWIZARD SOFTWARE]

CAPTIONS:

1. MFG/PRO SOFTWARE PROVIDES MULTINATIONAL ORGANIZATIONS WITH AN INTERGRATED ERP SOLUTION THAT IS BASED ON AN OPEN, CLIENT/SERVER ARCHITECTURE AND INCLUDES MANUFACTURING, DISTRIBUTION, FINANCIAL AND SERVICE/SUPPORT MANAGEMENT APPLICATIONS.
2. QWIZARD SOFTWARE IS A MENTOR FOR USERS OF MFG/PRO SOFTWARE WHICH PROVIDES SELF-PACED INTERACTIVE TRAINING. QWIZARD SOFTWARE INCLUDES TOOLS TO DESIGN AND CUSTOMIZE THE VISUAL INTERFACE OF MFG/PRO SOFTWARE TO MATCH THE USER'S WORKFLOWS AND JOB RESPONSIBILITIES.

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING OVER-ALLOTING, ENTERING STABILIZING BIDS, EFFECTING SYNDICATE COVERING TRANSACTIONS, AND IMPOSING PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

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[GRAPHICAL DEPICTION OF QAD CUSTOMERS' BUSINESS MODEL]

CAPTION:

1. QAD TARGETS SPECIFIC VERTICAL MARKETS. THE BUSINESS MODEL OF QAD'S TARGET CUSTOMERS VARIES BY SIZE AND COMPLEXITY OF THE ENTERPRISE. BUSINESS SOFTWARE REQUIREMENTS ALSO VARY AT EACH LEVEL OF THE ORGANIZATION AS WELL AS BY VERTICAL MARKETS.

SELECT CUSTOMER LIST

ELECTRONICS/INDUSTRIAL
ABB Flakt Oy
Alcatel Services International B.V.
Allen-Bradley Co. Inc.
Aluminum Company of America
AT&T
Courtaulds plc
Ingersoll-Rand Company
Lucent Technologies Inc.
Matsushita Electric-Industrial
Co., Ltd
NEC America, Inc.
Newbridge Networks Corporation

Philips International B.V.
 RayChem Corporation
 Schlumberger Technology Corp.
 Silicon Graphics SA
 Sun Microsystems, Inc.
 Xerox Corporation
 FOOD/BEVERAGE
 AEP Borden Nederland B.V.
 Cargill, Incorporated
 Kraft Jacobs Suchard AG
 Pepsi-Cola Company
 Presto Foods Products
 The Quaker Oats Company
 Rich Products Corporation
 CONSUMER GOODS
 The Black & Decker
 Corporation
 Colgate-Palmolive Company
 Gillette Company
 Johnson & Johnson
 Unilever N.V.
 AUTOMOTIVE
 Aeroquip-Vickers, Inc.
 Daewoo Information
 Systems Co. Ltd.
 Ford Motor Corporation
 Johnson Controls, Inc.
 Lear Seating Corporation
 R.J. Tower Corporation
 Rockwell Automotive
 United Technologies Automotive
 Varity Kelsey-Hayes Company
 MEDICAL
 Alza Corporation
 BOC Ohmeda Inc.
 Physio-Control Corporation
 Rexall Sundown, Inc.
 St. Jude Medical, Inc.
 Sunrise Medical Inc.
 Ventritex, Inc.

[GRAPHICAL DEPICTIONS OF QAD'S GLOBAL SUPPLY CHAIN MODEL, MFG/PRO-ERP
 SOLUTION AND ON/Q-SUPPLY CHAIN SOLUTION]

CAPTIONS:

1. QAD BELIEVES THAT THE INCREASING COMPLEXITY AND DIVERSITY OF CUSTOMER REQUIREMENTS LIMITS THE ABILITY OF A SINGLE-VENDOR SOLUTION TO FULLY MEET THE ENTERPRISE-WIDE ERP SOFTWARE NEEDS OF ITS CUSTOMERS AND HAS LED TO THE EMERGENCE OF THREE DISTINCT SEGMENTS WITHIN THE ERP SOFTWARE MARKET: CORPORATE, PLANT AND SUPPLY CHAIN MANAGEMENT.
2. QAD HAS A NUMBER OF JOINT DEVELOPMENT AGREEMENTS WITH THIRD-PARTY SOFTWARE DEVELOPERS WHO PROVIDE FUNCTIONALITY THAT HAS BEEN IMBEDDED INTO OR INTEGRATED WITH MFG/PRO SOFTWARE TO DELIVER A MORE COMPLETE SOLUTION FOR ITS TARGETED VERTICAL MARKETS.
3. THE COMPANY BELIEVES SUPPLY CHAIN OPTIMIZATION REPRESENTS ONE OF THE GREATEST CURRENT OPPORTUNITIES FOR COMPANIES TO REDUCE COSTS AND ENHANCE CUSTOMER RELATIONSHIPS. QAD IS DEVELOPING ON/Q SOFTWARE, A GROUP OF APPLICATIONS FOR THIS MARKET, THAT ARE BASED ON AN OBJECT-ORIENTED TECHNOLOGY, RESULTING IN FLEXIBLE AND CONFIGURABLE APPLICATION COMPONENTS. THE FIRST ON/Q SOFTWARE APPLICATION UNDER DEVELOPMENT, LOGISTICS, IS EXPECTED TO BE COMMERCIALY AVAILABLE IN THE SECOND HALF OF 1998.

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS PROSPECTUS. THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND THE FINANCIAL STATEMENTS AND NOTES THERETO APPEARING ELSEWHERE IN THIS PROSPECTUS. EXCEPT AS OTHERWISE SPECIFICALLY NOTED HEREIN, ALL OF THE INFORMATION IN THIS PROSPECTUS (I) REFLECTS THE CONVERSION OF ALL OF THE COMPANY'S OUTSTANDING SHARES OF CLASS B COMMON STOCK INTO SHARES OF COMMON STOCK, WHICH WILL OCCUR AUTOMATICALLY UPON THE CLOSING OF THE OFFERING, (II) ASSUMES THE REINCORPORATION OF THE COMPANY IN DELAWARE TO BE EFFECTED PRIOR TO THE COMPLETION OF THE OFFERING, (III) REFLECTS THE 2-FOR-1 SPLIT OF ALL OF THE COMPANY'S OUTSTANDING SHARES OF COMMON STOCK TO BE EFFECTED PRIOR TO THE COMPLETION OF THE OFFERING AND (IV) ASSUMES THAT THE U.S. UNDERWRITERS' AND THE MANAGERS' OVER-ALLOTMENT OPTION IS NOT EXERCISED. ALL REFERENCES TO THE COMPANY OR QAD SHALL REFER TO QAD INC., A DELAWARE CORPORATION, AND SHALL INCLUDE ITS SUBSIDIARIES, EXCEPT AS OTHERWISE SPECIFICALLY NOTED HEREIN.

THE COMPANY

QAD is a provider of Enterprise Resource Planning ("ERP") software for multinational and other large manufacturing companies. The Company's software solutions are designed to facilitate global management of resources and information to allow manufacturers to reduce order fulfillment cycle times and inventories, improve operating efficiencies and measure critical company performance criteria against defined business plan objectives. The flexibility of the Company's products also helps manufacturers adapt to growth, organizational change, business process reengineering, supply chain management and other challenges.

The Company's principal product, MFG/PRO software, is specifically designed for deployment at the plant or division level of global manufacturers in five targeted industry segments--electronics/industrial, food/beverage, consumer packaged goods, medical and automotive. MFG/PRO software provides multinational organizations with an integrated ERP solution that is based on an open, client/server architecture and includes manufacturing, distribution, financial and service/support management applications. Additionally, the Company is currently focused on extending its presence in multi-site manufacturing by developing a line of object-oriented, supply chain management solutions, named On/Q software. The Company's initial On/Q software product, Logistics, is designed to allow for consolidation of orders, contract management, shipping and logistics management. Logistics is currently in development and is expected to be commercially available in the second half of 1998. As of April 30, 1997, the Company had licensed MFG/PRO software at approximately 3,200 sites to approximately 1,880 customers in over 70 countries. The Company's customers include Cargill, Incorporated, Colgate-Palmolive Company, Johnson Controls, Inc., Johnson & Johnson, Lucent Technologies Inc., Philips Electronics N.V., St. Jude Medical, Inc., Unilever N.V. and United Technologies Automotive.

The Company was founded in 1979 and was incorporated in California as qad.inc in 1986. In February 1997, the Company's name was changed to QAD Inc. The Company will be reincorporated in Delaware prior to completion of the Offering. The Company's executive offices are located at 6450 Via Real, Carpinteria, California 93013, and its telephone number is (805) 684-6614.

THE OFFERING

Common Stock offered:

U.S. Offering.....	4,600,000 shares
International Offering.....	1,150,000 shares
Total.....	5,750,000 shares (1)

Common Stock to be outstanding after
the Offering..... 28,274,234 shares (1)(2)

Use of proceeds..... For repayment of indebtedness, to fund capital
and other investments and for working capital
and general corporate purposes. See "Use of
Proceeds."

Nasdaq National Market symbol..... QADI

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- (1) Does not include 862,500 shares of Common Stock that are subject to an over-allotment option granted by the Company to the U.S. Underwriters and the Managers.
- (2) Excludes 1,061,000 shares of Common Stock issuable upon exercise of options outstanding at April 30, 1997 with exercise prices ranging from \$0.12 to \$13.00 per share and with a weighted average exercise price of \$2.73 per share. See Note 10 of Notes to Consolidated Financial Statements.

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SUMMARY CONSOLIDATED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,				YEAR ENDED	QUARTER ENDED	
	1992	1993	1994	1995	JANUARY 31, 1997 (1)	APRIL 30, 1996	1997
							(UNAUDITED)
STATEMENT OF INCOME DATA:							
Revenue.....	\$ 28,074	\$ 46,543	\$ 66,360	\$ 89,949	\$ 126,444	\$ 20,116	\$ 32,073
Operating income (loss).....	3,565	6,442	4,084	(2,646)	2,322	(10,200)	317
Net income (loss).....	1,589	3,694	2,878	(686)	1,000	(7,317)	560
Net income (loss) per share (2).....	\$ 0.08	\$ 0.18	\$ 0.12	\$ (0.03)	\$ 0.04	\$ (0.33)	\$ 0.02
Shares used in computing income (loss) per share.....	20,788	20,788	23,887	21,889	23,534	22,167	24,015

	APRIL 30, 1997	
	ACTUAL	AS ADJUSTED (3)
		(UNAUDITED)
BALANCE SHEET DATA:		
Cash and cash equivalents.....	\$ 1,306	\$ 47,561
Working capital (deficit).....	(12,216)	49,182
Total assets.....	81,193	129,448
Notes payable and current installments of long-term debt.....	15,143	0
Long-term debt, less current installments.....	4,320	0
Total stockholders' equity.....	10,952	78,669

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- (1) Effective February 1, 1996, the Company changed its financial reporting year end from December 31 to January 31. See Note 1 of Notes to Consolidated Financial Statements.
- (2) The basis for the determination of stock used in computing net income (loss) per share is described in Note 1 of Notes to Consolidated Financial Statements.
- (3) Adjusted to give effect to the sale of 5,750,000 shares of Common Stock

offered by the Company in the Offering at an assumed initial public offering price of \$13.00 per share after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company and the application of the estimated net proceeds therefrom, including the use of approximately \$19.5 million to repay amounts owed under notes payable and long-term debt and \$2.0 million to acquire an equity interest in a private technology development company. See "Use of Proceeds" and "Capitalization."

"QAD," "Qwizard" and "On/Q" are trademarks and "MFG/PRO" is a registered trademark of the Company. This Prospectus also contains trademarks and registered trademarks of persons and companies other than QAD.

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RISK FACTORS

THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH IN THE FOLLOWING RISK FACTORS AND ELSEWHERE IN THIS PROSPECTUS. IN EVALUATING THE COMPANY'S BUSINESS, PROSPECTIVE INVESTORS SHOULD CONSIDER CAREFULLY THE FOLLOWING FACTORS IN ADDITION TO THE OTHER INFORMATION SET FORTH IN THIS PROSPECTUS.

HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS

The Company's quarterly revenue, expenses and operating results have varied significantly in the past, and the Company anticipates that such fluctuations will continue in the future as a result of a number of factors, many of which are outside the Company's control. The factors affecting these fluctuations include demand for the Company's products and services, the size, timing and structure of significant licenses by customers, market acceptance of new or enhanced versions of the Company's software products and products that operate with the Company's products, the publication of opinions about the Company, its products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing the Company's products for new markets, delays in sales as a result of lengthy sales cycles, changes in operating expenses, foreign currency exchange rate fluctuations, changes in pricing policies by the Company or its competitors, customer order deferrals in anticipation of product enhancements or new product offerings by the Company or its competitors, the timing of the release of new or enhanced versions of the Company's software products and products that operate with the Company's products, changes in the method of product distribution (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by the Company, customer cancellation of major planned software development programs and general economic factors.

A significant portion of the Company's revenue in any quarter may be derived from a limited number of large, non-recurring license sales. For example, revenue from four customers represented approximately 22% of license fees in the quarter ended April 30, 1997. The Company expects to continue to experience from time to time large, individual license sales which may cause significant variations in quarterly license fees. The Company also believes that the purchase of its products is relatively discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any potential customer's business could result in order cancellations which could have a significant adverse impact on the Company's revenue and quarterly results. Moreover, declines in general economic conditions could precipitate significant reductions in corporate spending for information technology, which could result in delays or cancellations of orders for the Company's products.

The Company has also historically recognized a substantial portion of its revenue from sales booked and shipped in the last month of a quarter. As a result, the magnitude of quarterly fluctuations in license fees may not become evident until late in, or at the end of, a particular quarter. If sales

forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company is unlikely to be able to generate revenue from alternate sources in time to compensate for the shortfall. As a result, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results. To the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. The Company has also historically operated with little backlog because its products are generally shipped as orders are received. As a result, revenue from license fees in any quarter is substantially dependent on orders booked and shipped in that quarter and on sales by the Company's distributors and other resellers. Sales derived through indirect channels are harder to predict and may have lower profit margins than direct sales.

The Company has generally realized lower revenue (i) in July and August, due primarily to reduced economic activity in Europe in the summer months; and (ii) to a lesser extent, in the first two months of the calendar year, due to the concentration by some customers of purchases in the fourth quarter of the calendar year, and their consequently lower purchasing activity during the immediately following months.

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In addition, like many software companies, the Company typically realizes a significant portion of its software license revenue in the last month of the quarter and in the last quarter of the year. However, unlike a number of the Company's competitors, the Company does not derive material revenue from the provision of services in connection with its license sales. As a result, a greater proportion of the Company's revenue tends to be less predictable and to occur later in the quarter and in the year than the revenue of competitors who provide such services.

The Company's expense levels are relatively fixed and are based, in significant part, on expectations of future revenue. Consequently, if revenue levels are below expectations, expense levels could be disproportionately high as a percentage of total revenue, and operating results would be immediately and adversely affected and losses could occur.

Based upon the factors described above, the Company believes that its quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations are not necessarily meaningful and that, as a result, such comparisons should not be relied upon as indications of future performance. Moreover, although the Company's revenue has generally increased in recent periods, there can be no assurance that the Company's revenue will grow in future periods, at past rates or at all, or that the Company will be profitable on a quarterly or annual basis. The Company has in the past experienced and may in the future experience quarterly losses.

QAD has recently implemented changes designed to mitigate the seasonal and quarterly fluctuations in its operating results. Such changes include the hiring of additional financial personnel, including a new Chief Financial Officer and a Director of Financial Planning and Analysis, the changing of the Company's fiscal year end from December 31 to January 31 and the changing of the Company's planning systems to incorporate quarterly performance goals and quarterly forecasting procedures. Additionally, the Company is introducing quarterly financial incentives into its compensation system. There can be no assurance that such changes will alleviate the seasonal, quarterly or other fluctuations in the Company's financial results or that such changes will have a positive effect at all.

In future periods, the Company's operating results may be below the expectations of stock market analysts and investors. In such event, the price of the Common Stock could be materially adversely affected. See "--Seasonality of Operating Results" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

RISKS ASSOCIATED WITH SALES CYCLE

Because the license of the Company's products generally involves a significant commitment of capital (which ranges from approximately \$50,000 to several million dollars), the sales cycle associated with a customer's purchase of the Company's products is generally lengthy (with a typical duration of four to 15 months), varies from customer to customer and is subject to a number of significant risks over which the Company has little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by the Company or its competitors and general economic downturns which can result in delays or cancellations of information systems investments. Due in part to the strategic nature of the Company's products, potential customers are typically cautious in making product acquisition decisions. The decision to license the Company's products generally requires the Company to provide a significant level of education to prospective customers regarding the uses and benefits of the Company's products, and the Company must frequently commit substantial presales support resources. The Company is almost completely reliant on third parties for implementation and systems integration services, which may cause sales cycles to be lengthened or result in the loss of sales. The uncertain outcome of the Company's sales efforts and the length of its sales cycles could result in substantial fluctuations in operating results. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, then the Company is unlikely to be able to generate revenue from alternative sources in time to compensate for the shortfall. As a result, and due to the relatively large size of some orders, a lost or delayed sale could have a material adverse effect on the Company's quarterly

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operating results. See "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations."

SEASONALITY OF OPERATING RESULTS

The Company has generally realized lower revenue (i) in July and August, due primarily to reduced economic activity in Europe during the summer months and (ii) to a lesser extent, in the first two months of the calendar year, due to the concentration by some customers of purchases in the fourth quarter of the calendar year and their consequently lower purchasing activity during the immediately following months. Notwithstanding the change in the Company's fiscal year end from December 31 to January 31 and the recent changes in the Company's planning and compensation systems, the Company anticipates that such seasonality will continue to cause significant quarterly fluctuations in the Company's operating results. See "--Historical Fluctuations in Quarterly Results and Potential Future Significant Fluctuations" and "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations."

PRODUCT CONCENTRATION

The Company has historically derived substantially all of its revenue from the licensing and maintenance of the Company's MFG/PRO software. In the fiscal year ended January 31, 1997 and in the quarter ended April 30, 1997, such revenue equaled approximately 94% and 93%, respectively, of the Company's total revenue. The Company expects that such revenue will continue to represent substantially all of the Company's revenue for the foreseeable future. The Company's success depends on continued market acceptance of the Company's MFG/PRO software, as well as the Company's ability to introduce new versions of MFG/PRO software and other products to meet the evolving needs of its customers. Although demand for MFG/PRO software has grown in recent years, management believes that the market for ERP software is still developing and there can be no assurance that it will continue to grow or that, even if the market does grow, businesses will continue to adopt MFG/PRO software. The failure of the market for ERP software to continue to grow, any reduction in demand for MFG/PRO software as a result of increased competition in the market for ERP software, technological change, failure by the Company to introduce new versions of products acceptable to the marketplace or other similar factors would have a material adverse effect on the Company's business, operating results and financial condition. The Company has spent, and intends to continue to spend, considerable resources educating potential customers about ERP in general and

about the features and functions of MFG/PRO software in particular. However, there can be no assurance that such expenditures will enable MFG/PRO software to achieve any additional degree of market penetration or a higher level of market acceptance, nor can there be any assurance that any new ERP products being developed by the Company will achieve the market acceptance necessary to make such products profitable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Products."

DEPENDENCE ON PROGRESS PRODUCTS

The Company's MFG/PRO software is written in a programming language that is proprietary to Progress Software Corporation ("Progress"). The Company has entered into a license agreement with Progress (the "Progress Agreement") that provides the Company and each of its subsidiaries, among other things, with the perpetual, worldwide, royalty-free right to use the Progress programming language to develop, market, distribute and license the Company's software products. The Progress Agreement also provides for continued software support from Progress through June 2002 without charge to the Company. Progress may only terminate the Progress Agreement upon the Company's adjudication as bankrupt, its liquidation or other similar event, or if the Company has ceased business operations in full. The Company's success is dependent upon Progress continuing to develop, support and enhance this programming language, its tool set and database, as well as the continued market acceptance of Progress as a standard database program. The Company has in the past and may in the future experience product release delays because of delays in the release of Progress products or product enhancements. Any such delays could have a material adverse effect on the Company's business, operating results and financial

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condition. MFG/PRO software employs Progress programming interfaces which allow MFG/PRO software to operate with Oracle Corporation ("Oracle") database software. However, the Company's software programs do not run within programming environments other than Progress and the Company's customers must acquire rights to Progress Software in order to use MFG/PRO software. The Company's On/Q software products, the initial application of which is currently under development and is expected to be commercially available in the second half of 1998, are not dependent upon Progress technology. The failure of Progress to continue its relationship with the Company or to develop, support or enhance its programming language in a manner competitive with enhancements of other present or future programming languages, the increased market acceptance of programming languages other than Progress in the Company's market or the Company's inability to adapt its software to such other languages could have a material adverse effect on the Company's business, operating results and financial condition.

RAPID TECHNOLOGICAL CHANGE

The market for the Company's software products is characterized by rapid technological advances, evolving industry standards in computer hardware and software technology, changes in customer requirements and frequent new product introductions and enhancements. Customer requirements for products can change rapidly as a result of innovations or changes within the computer hardware and software industries, the introduction of new products and technologies (including new hardware platforms and programming languages) and the emergence, evolution or widespread adoption of industry standards. For example, increasing commercial use of the Internet may give rise to new customer requirements and new industry standards. The Company's future success will depend upon its ability to continue to enhance its current product line and to develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. In particular, the Company believes its future success will depend on its ability to convert its products to object-oriented technology as well as its ability to develop products that will operate across the Internet. There can be no assurance that the Company will be successful in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological advances by others, or that its products will achieve

market acceptance. The Company's failure to successfully develop and market product enhancements or new products could have a material adverse effect on the Company's business, operating results and financial condition.

While the Company generally takes steps to avoid interruptions of sales due to the pending availability of new products, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced MFG/PRO software, which could have a material adverse effect on the Company's business, operating results and financial condition. The actual or anticipated introduction of new products, technologies and industry standards can also render existing products obsolete or unmarketable or result in delays in the purchase of such products. As a result, the life cycles of the Company's products are difficult to estimate. The Company must respond to developments rapidly and incur substantial product development expenses. Any failure by the Company to anticipate or respond adequately to technology developments or customer requirements, or any significant delays in introduction of new products, could result in a loss of revenue. Moreover, significant delays in the general availability of such new releases, significant problems in the installation or implementation of such new releases, or customer dissatisfaction with such new releases, could have a material adverse effect on the Company's business, operating results and financial condition. The Company is also dependent upon third parties for necessary services in connection with the installation and implementation of the Company's products and associated post-sales training. Any errors, delays or other deficiencies in such services due to technology changes or other factors could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Products" and "--Third-Party Implementation Providers."

SUPPLY CHAIN SOLUTIONS UNDER DEVELOPMENT AND UNDERLYING TECHNOLOGY

A significant element of the Company's strategy is its development of On/Q software, a series of new products targeted to the supply chain management needs of manufacturing companies. Over the past

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year, the Company has devoted substantial resources to developing its On/Q software. The Company's first On/Q software product, Logistics, is currently under development and is anticipated to be commercially available in the second half of 1998. Although the Company has performed preliminary tests on its Logistics software, it has not completed its development or commenced beta testing, nor has the product been implemented in a commercial setting. There can be no assurance that Logistics or any other of the Company's planned On/Q software products will achieve the performance standards required for commercialization or that such products will achieve market acceptance or be profitable. If Logistics or the Company's other planned supply chain management software products do not achieve such performance standards or do not achieve market acceptance, the Company's business, operating results and financial condition would be materially and adversely affected.

On/Q software is being designed based upon object-oriented technology. Object-oriented applications are characterized by technology, development style and programming languages that differ from those used in traditional software applications, including the current version of MFG/PRO software. The Company believes that new object-based functionality will play a key role in the competitive manufacturing, distribution, financial, planning and service/support management information technology strategies of customers in the Company's targeted industry segments. The Company is also currently in the process of converting its MFG/PRO software modules to object-oriented technology where the Company believes such conversion will add value. There can be no assurance that the Company will be successful in developing its new supply chain management software or converting its MFG/PRO software to object-oriented technology on a timely basis, if at all, or that if developed or converted such software will achieve market acceptance. The failure to successfully incorporate object-oriented technology in new products or convert MFG/PRO software to object-oriented technology could have a material adverse effect on the Company's business, operating results and financial condition.

Convergent Engineering is a new software design methodology employed by the Company to develop future products. Convergent Engineering methodology allows business requirements to be captured as a series of simple facts, actions and rules, enabling software to more flexibly accommodate business practices and processes. Although Convergent Engineering does not require the user to adopt new business practices or principles for their own work processes, Convergent Engineering models business management processes differently than traditional business models. As a result, use of Company products based upon Convergent Engineering principles will require the Company's implementation partners to be educated in the new methodology. There can be no assurance that the Company will gain acceptance among its implementation providers for this methodology on which the Company's new products are based. The failure to obtain such acceptance would have a material adverse effect on the marketability of the Company's products under development and the Company's business, operating results and financial condition. See "Business -- Products."

RISK OF SOFTWARE DEFECTS

As a result of the complexities inherent in client/server computing environments and the broad functionality and performance demanded by customers for ERP products, major new products and product enhancements can require long development and testing periods. In addition, software programs as complex as those offered by the Company may contain undetected errors or "bugs" when first introduced or as new versions are released that, despite testing by the Company, are discovered only after a product has been installed and used by customers. While the Company has on occasion experienced delays in the scheduled introduction of new and enhanced products, to date the Company's business has not been materially adversely affected by delays or the release of products containing errors. There can be no assurance, however, that errors will not be found in future releases of the Company's software, or that the Company will not experience material delays in releasing product improvements or new products. The occurrence of such errors could result in significant losses to the Company or to customers. Such occurrences could also result in reduced market acceptance of the Company's products, which would have a material adverse effect on the Company's business, operating results and financial condition.

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MARKET CONCENTRATION

The Company has made a strategic decision to concentrate its product development and sales and marketing in five primary vertical industry segments: electronics/industrial, food/beverage, consumer packaged goods, medical and automotive. An important element of the Company's strategy is to achieve technological and market leadership recognition for its software products in these segments. The failure of the Company's products to achieve or maintain substantial market acceptance for its software products in one or more of these segments could have a material adverse effect on the Company's product and business strategy in that segment and on the business, operating results and financial condition of the Company. If any of the industry segments targeted by the Company experiences a material downturn in expansion or in prospects for future growth, such downturn would materially adversely affect the demand for the Company's products and will materially adversely affect its business, operating results and financial condition. See "Business--Sales and Marketing."

MANAGEMENT OF GROWTH

The Company's business has grown rapidly in the last six years, with revenue increasing from approximately \$28.0 million in the fiscal year ended December 31, 1992 to approximately \$126.4 million in the fiscal year ended January 31, 1997. During the fiscal year ended December 31, 1995 and continuing through the quarter ended April 30, 1997, the Company significantly increased its sales and marketing, service and support and research and development staffs, resulting in substantial growth in the number of its full-time employees (from 521 at March 31, 1995 to 700 at April 30, 1997), the scope of its operating and financial

systems and the geographic distribution of its operations and customers. This recent rapid growth has placed, and will continue to place, a significant strain on the Company's management and operations. The Company expects to continue to increase staffing levels, primarily in the sales and marketing and research and development areas, and incur additional associated costs in future periods. The Company's future operating results will depend on the ability of its officers and other key employees to continue to implement and improve its operational, customer support and financial control systems, and to effectively expand, train and manage its employee base. There can be no assurance that the Company will be able to manage any future expansion successfully, and any inability to do so would have a material adverse effect on the Company's business, operating results and financial condition. The Company has undertaken a project to significantly upgrade its financial planning and control systems, including an upgrade of its current transaction accounting systems. The Company believes the success of such implementation will improve its budgeting, forecasting and financial statement reporting capabilities. However, implementation of these systems upgrades will require significant management and other employee attention and coordination, and there can be no assurance that the implementation will be successful. The failure to successfully implement the upgrades could materially adversely affect the Company's future budgeting, forecasting and financial statement reporting capabilities.

The Company has made a strategic decision to be a global provider of its products. To accomplish this goal, over the last two years the Company has expanded its direct sales and support operations from 12 countries to 17 countries. In addition, during that time, the Company has significantly expanded its distributor and partner relationships. Currently, the Company has over 40 distributors worldwide. The management of these widely dispersed international operations has placed and will continue to place significant strain on the Company's management and operations. The Company believes that its ability to provide products and services on a global basis is critical to the Company's success. However, there can be no assurance that the Company will be able to continue to successfully manage its widespread international operations or successfully manage future expansion of such operations, and the failure by the Company to do so would have a material adverse effect on its business, operating results and financial condition.

The Company days' sales outstanding have generally exceeded industry averages. If the Company experiences rapid growth, this lengthy collection cycle could result in a significant impairment of the Company's cash position. While the Company has undertaken efforts to reduce the length of its collection

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cycle, the failure of the Company to successfully implement such changes or the failure of such changes to reduce such collection cycle could have a material adverse effect on the Company's business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management."

DEPENDENCE UPON KEY PERSONNEL; NEED TO HIRE ADDITIONAL PERSONNEL IN ALL AREAS

The Company's future operating results depend in significant part upon the continued service of a relatively small number of key technical and senior management personnel, including Pamela M. Lopker, its President and founder, and Karl F. Lopker, its Chief Executive Officer, neither of whom is bound by an employment agreement. Pamela and Karl Lopker are married to each other and jointly own approximately 84% of the outstanding Common Stock and will jointly own approximately 67% of the Common Stock following consummation of the Offering (assuming no exercise of the U.S. Underwriters' and the Managers' over-allotment option). Although the Company maintains key-individual insurance in the amount of \$2.5 million with respect to each of Pamela and Karl Lopker and the Company is the beneficiary of such policies, the loss of one or more of these or other key individuals could have a material adverse effect on the Company's business, operating results and financial condition.

The Company's future success also depends on its continuing ability to attract and retain other highly qualified technical and managerial personnel. For example, the Company is currently actively seeking to fill the position of Vice President of Field Operations whose responsibilities will be to manage all direct and indirect sales operating units, as well as the Company's territory and alliance management unit. Competition for such personnel is intense, and the Company has at times in the past experienced difficulty in recruiting qualified personnel. There can be no assurance that the Company will retain its key technical and managerial employees or that it will be successful in attracting, assimilating and retaining other highly qualified technical and managerial personnel in the future. The loss of any member of the Company's key technical and senior management personnel or the inability to attract and retain additional qualified personnel could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Employees" and "Management."

DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS

The Company sells and supports its products through direct and indirect sales organizations throughout the world. The Company has made significant expenditures in recent years in the expansion of its sales and marketing force, primarily outside the United States, and plans to continue to expand its sales and marketing force. The Company's future success will depend in part upon the productivity of its sales and marketing force and the ability of the Company to continue to attract, integrate, train, motivate and retain new sales and marketing personnel. Competition for sales and marketing personnel in the software industry is intense. There can be no assurance the Company will be successful in hiring such personnel in accordance with its plans. The Company is currently actively seeking to fill the position of Vice President of Field Operations, whose responsibilities will be to manage all direct and indirect sales operating units, as well as the Company's territory and alliance management unit. There can be no assurance that such person will be successful in accomplishing these objectives or that the Company's recent and other planned expenses in sales and marketing will ultimately prove to be successful or that the incremental revenue generated will exceed the significant incremental costs associated with these efforts. In addition, there can be no assurance that the Company's sales and marketing organization will be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of the Company's current and potential competitors. If the Company is unable to develop and manage its sales and marketing force expansion effectively, the Company's business, operating results and financial condition would be materially adversely affected.

The Company's indirect sales channel consists of over 40 distributors worldwide. The Company does not grant exclusive rights to any of its distributors. The Company's distributors primarily sell independently

to companies within their geographic territory but may also work in conjunction with the Company's direct sales organization. The Company will need to maintain and expand its relationships with its existing distributors and enter into relationships with additional distributors in order to expand the distribution of its products. There can be no assurance that current or future distributors will provide the level and quality of expertise and service required to successfully license the Company's products, that the Company will be able to maintain effective, long-term relationships with distributors, or that selected distributors will continue to meet the Company's sales needs. Further, there can be no assurance that these distributors will not market software products in competition with the Company in the future or will not otherwise reduce or discontinue their relationships with or support of the Company and its products. The failure by the Company to maintain successfully its existing distributor relationships or to establish new relationships in the future would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if any of the Company's distributors exclusively adopts a product other than the Company's products, or if any such distributor materially reduces its sales efforts relating to the Company's

products or materially increases such support for competitive products, the Company's business, operating results and financial condition could be materially and adversely affected. See "Business--Sales and Marketing."

COMPETITION

The ERP software market is highly competitive, rapidly changing and affected by new product introductions and other market activities of industry participants. The Company currently competes primarily with (i) other vendors of software focused on the specific needs of manufacturing plants and distribution sites of multinational manufacturing companies, which include Baan Company N.V. ("Baan"), J.D. Edwards & Company ("J.D. Edwards") and Systems Software Associates, Inc. ("SSA"), (ii) smaller independent companies that have developed or are attempting to develop advanced planning and scheduling software which complement or compete with ERP or manufacturing resource planning solutions, (iii) internal development efforts by corporate information technology departments and (iv) companies offering standardized or customized products on mainframe and/or mid-range computer systems. The Company expects that competition for its MFG/PRO software will increase as other large companies such as Oracle and SAP AG ("SAP"), as well as other business application software vendors, enter the market for plant-level ERP solutions. With the Company's strategic entry into the supply chain management software market, the Company can expect to meet substantial additional competition from companies presently serving that market, such as i2 Technologies, Inc. ("i2"), Industri-Matematik International, Inc. ("IMI") and Manugistics, Inc. ("Manugistics"), as well as from broad based solution providers such as Baan, Oracle, PeopleSoft, Inc. ("PeopleSoft") and SAP that the Company believes are increasingly focusing on this segment. In addition, certain competitors, such as Baan, Oracle, PeopleSoft and SAP, have well-established relationships with present or potential customers of the Company. The Company may also face market resistance from potential customers with large installed legacy systems because of their reluctance to commit the time, effort and resources necessary to convert to an open, client/server-based software solution. Further, as the client/server market continues to develop, companies with significantly greater resources than the Company may attempt to increase their presence in these markets by acquiring or forming strategic alliances with competitors of the Company. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share, any one of which could materially adversely affect the Company's business, operating results and financial condition. Many of the Company's present or future competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than can the Company. The Company believes that the principal factors on which it competes in the ERP software market are functionality, ease of use and implementation, technology, time to benefit, supplier viability, service and cost. The Company intends to continue to acquire, develop and

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allocate its resources to focus on these targeted competitive areas, as well as to identify additional or different areas where the Company perceives competitive advantage. There can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Competition."

RELIANCE ON AND NEED TO DEVELOP ADDITIONAL RELATIONSHIPS WITH THIRD PARTIES

The Company has established strategic relationships with a number of consulting and systems integration organizations that it believes are important to its worldwide sales, marketing, service and support activities and the

implementation of its products. The Company is particularly reliant on third parties for installation and implementation of its products because the Company, unlike a number of its competitors, does not provide these services. If the Company is unable to train adequately a sufficient number of system integrators or, if for any reason, any such integrators terminate their relationship with the Company or do not have or devote the resources satisfactory to provide necessary consulting and implementation of the Company's products, the Company's business, operating results and financial condition could be materially and adversely affected. The Company is aware that these third-party providers do not provide systems integration services exclusively for the Company's products and in many instances such firms have similar, and often more established, relationships with the Company's principal competitors. The Company expects to continue to rely upon such third parties, particularly installation and implementation service providers, for marketing and sales, lead generation, product installation and implementation, customer support services, product localization, end-user training assistance in the sales process and after-sale training and support. These relationships also assist the Company in keeping pace with the technological and marketing developments of major software vendors, and, in certain instances, provide it with technical assistance for its product development efforts. Organizations providing such consulting and systems integration and implementation services in connection with the Company's products include Arthur Andersen & Co. LLP, Deloitte & Touche LLP, Ernst & Young LLP, Integrated Systems & Services, LLC and Strategic Information Group International, Inc. in the United States, BDM Largotim US, Inc., CSBI S.A., Origin Technology in Business Nederland B.V. and Sligos S.A. in Europe and Iris Ifec Co., Ltd and STCS Systems Pte Ltd in Asia. In most cases distributors will also deliver consulting and systems integration services. The Company will need to expand its relationships with these parties and enter into relationships with additional third parties in order to expand the distribution of its products. There can be no assurance that these and other third parties will provide the level and quality of service required to meet the needs of the Company's customers, that the Company will be able to maintain an effective, long-term relationship with such third parties, or that such third parties will continue to meet the needs of the Company's customers. Further, there can be no assurance that these third-party implementation providers, many of which have significantly greater financial, technical, personnel and marketing resources than the Company, will not market software products in competition with the Company in the future or will not otherwise reduce or discontinue their relationships with or support of the Company and its products. The failure by the Company to maintain its existing relationships or to establish new relationships in the future, or the failure of such third parties to meet the needs of the Company's customers, would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if such third parties exclusively adopt a product or technology other than the Company's products or technology, or if such third parties materially reduce their support of the Company's products or technology or materially increase such support for competitive products or technology, the Company's business, operating results and financial condition will be materially and adversely affected.

The Company typically enters into separate agreements with each of its installation and implementation partners that provide such partners with the non-exclusive right to promote and market the Company's products, and to provide training, installation, implementation and other services for the Company's products, within a defined territory for a specified period of time (generally two years). Although the

Company's installation and implementation partners do not receive fees for the sale of the Company's software products, they generally are permitted to set their own rates for such services and the Company typically does not collect a royalty or percentage fee from such partners on services performed. The Company also enters into similar agreements with its distribution partners that grant such partners the non-exclusive right, within a specified territory, to market, license, deliver and support the Company's products. In exchange for such distributors' services, the Company grants a discount to the distributor for the

license of its software products. The Company also relies on third parties for the development or inter-operation of key components of its software so that users of the Company's software will obtain the functionality demanded. Such research and product alliances include software developed to be sold in conjunction with the Company's software products, technology developed to be included in or encapsulated within the Company's software products and numerous third-party software programs that generally are not sold with the Company's software but inter-operate directly with the Company's software through application program interfaces. The Company generally enters into joint development agreements with its third-party software development partners that govern ownership of the technology collectively developed. Each of the Company's partner agreements and third-party development agreements contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and the Company's third-party development agreements contain restrictions on the use of the Company's technology outside of the development process. The failure of the Company to establish or maintain successful relationships with such third-party software providers or such third-party installation, implementation and development partners or the failure of such third-party software providers to develop and support their software could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Sales and Marketing," "--Third-Party Implementation Providers" and "--Proprietary Rights and Licensing."

INTELLECTUAL PROPERTY RIGHTS; USE OF LICENSED TECHNOLOGY

The Company's success is dependent upon its proprietary technology and other intellectual property. The Company relies primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect its rights in its software. The Company enters into license agreements with each of its customers. Each of the Company's license agreements provides for the non-exclusive license of the Company's MFG/PRO software. Such licenses generally are perpetual (unless terminated by either party upon 30 days written notice) and contain strict confidentiality and non-disclosure provisions, a limited warranty covering MFG/PRO software and indemnification for the customer from any infringement action related to MFG/PRO software. The pricing policy under each license is based on a standard price list and may vary based on the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and level of ongoing support, training and services to be provided by the Company. The Company has no patents or pending patent applications. In order to facilitate the customization required by most of the Company's customers, the Company generally licenses its MFG/PRO software to end users in both object code (machine-readable) and source code (human-readable) format. While this practice facilitates customization, making software available in source code also makes it easier for third parties to copy or modify the Company's software for non-permitted purposes. One of the Company's distributors has developed modifications to the Company's software which it owns jointly with the Company. The Company has entered into a reciprocal license with this distributor who markets the product enhancements in conjunction with MFG/PRO software. This or other distributors or other persons may continue to independently develop a modified version of the Company's software. The Company seeks to protect its software, documentation and other written materials under the legal provisions relating to trade secret, copyright and contract law. The Company's license agreements generally allow the use of MFG/PRO software solely by the customer for internal purposes without the right to sublicense or transfer MFG/PRO software to third parties. The Company believes that the foregoing measures afford only limited protection. Despite the Company's efforts, it may be possible for

third parties to copy certain portions of the Company's products or reverse engineer or obtain and use information that the Company regards as proprietary. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States.

Accordingly, there can be no assurance that the Company will be able to protect its proprietary software against unauthorized third-party copying or use, which could adversely affect the Company's competitive position. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exist, software piracy can be expected to be a problem. Furthermore, there can be no assurance that the Company's competitors will not independently develop technology similar to that of the Company.

The Company has in the past been subject to claims of intellectual property infringement and may increasingly be subject to such claims as the number of products and competitors in the Company's targeted vertical markets grows and the functionality of products in other industry segments overlaps. Although the Company is not aware that any of its products infringes upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition. The Company may also initiate claims or litigation against third parties for infringement of the Company's proprietary rights or to establish the validity of the Company's proprietary rights. Litigation to determine the validity of any claims could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from productive tasks, whether or not such litigation were determined in favor of the Company.

The Company has in the past and may in the future resell certain software which it licenses from third parties. In addition, the Company has in the past and may in the future jointly develop software in which the Company will have co-ownership or cross-licensing rights. There can be no assurance that these third-party software arrangements and licenses will continue to be available to the Company on terms that provide the Company with the third-party software it requires to provide adequate functionality in its products, on terms that adequately protect the Company's proprietary rights or on terms that are commercially favorable to the Company. The loss of or inability to maintain or obtain any of these software licenses, including as a result of third-party infringement claims, could result in delays or reductions in product shipments until equivalent software, if any, could be identified, licensed and integrated, which could materially and adversely affect the Company's business, operating results and financial condition. See "Business--Products" and "--Research and Development."

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

The Company derived approximately 45%, 44%, 42% and 46% of its total revenue from sales outside the United States in the years ended December 31, 1994 and 1995 and January 31, 1997 and in the quarter ended April 30, 1997, respectively. Of the Company's approximately 3,200 licensed sites in over 70 countries as of April 30, 1997, over 70% are outside the United States. The Company's engineering and research and development operations are located in the United States and its sales and support operations are located in the United States and in 16 other countries. The Company also has over 40 distributors and numerous partnerships and alliances worldwide. The geographic distance between these locations has in the past led, and could in the future lead, to logistical and communications difficulties. There can be no assurance that the geographic, time zone, language and cultural differences between the Company's international personnel and operations will not result in problems that materially adversely affect the Company's business, operating results and financial condition.

The Company expects to commit additional time and resources to expanding its worldwide sales and marketing activities, localizing its products for selected

markets and developing local sales and support channels. There can be no assurance that such efforts will be successful. Failure to sustain or increase international revenue could have a material adverse effect on the Company's business, operating results and financial condition. The Company may also experience an operating loss in one or more regions of the world for one or more periods. The Company's ability to manage such operational fluctuations and to maintain adequate long-term strategies in the face of such developments will be critical to the Company's continued growth and profitability. International operations are subject to a number of risks, including the costs of localizing products for different countries, longer accounts receivable collection periods and greater difficulty in accounts receivable collections in certain geographic regions, unexpected changes in regulatory requirements, dependence on distributors and technology standards, import and export restrictions and tariffs, difficulties and costs of staffing and managing international operations, potentially adverse tax consequences, political instability, the burdens of complying with multiple, potentially conflicting laws and the impact of business cycles and economic instability. See "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations" and "Business--Sales and Marketing."

EXPOSURE TO CURRENCY FLUCTUATIONS

To date, the Company's revenue from international operations has primarily been denominated in United States dollars. The Company prices its products in United States dollars and over 90% of the Company's sales in the years ended December 31, 1995 and January 31, 1997 and in the quarter ended April 30, 1997 were denominated in United States dollars, with the remainder in ten different currencies. The Company expects that a growing percentage of its business will be conducted in currencies other than the United States dollar. The Company also incurs a significant portion of its expenses in currencies other than the United States dollar, including a substantial portion of its general and administrative expenses. As a result, fluctuations in the values of the respective currencies relative to the other currencies in which the Company generates revenue could materially adversely affect its business, operating results and financial condition. While the Company may in the future change its pricing practices, an increase in the value of the United States dollar relative to foreign currencies could make the Company's products more expensive and, therefore, less competitive in other markets. Fluctuations in currencies relative to the United States dollar will affect period-to-period comparisons of the Company's reported results of operations. In the fiscal year ended January 31, 1997, the Company realized \$407,000 in foreign currency transaction gains, compared to losses of \$477,000 and \$343,000 in the fiscal years ended December 31, 1995 and 1994, respectively. Due to the constantly changing currency exposures and the volatility of currency exchange rates, there can be no assurance that the Company will not experience currency losses in the future, nor can the Company predict the effect of exchange rate fluctuations upon future operating results. The Company does not currently undertake hedging transactions and has limited resources to cover its currency exposure. The Company may choose to hedge a portion of its currency exposure in the future as it deems appropriate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CONTROL BY PRINCIPAL STOCKHOLDERS

Upon completion of the Offering, Pamela and Karl Lopker will jointly beneficially own 67% of the Company's outstanding Common Stock (65% if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full). Current directors and executive officers as a group will own approximately 71% of the Common Stock following consummation of the Offering (assuming no exercise of the U.S. Underwriters' and the Managers' over-allotment option). Consequently, the directors and executive officers, and the Lopkers in particular, will be able to control the outcome of all matters submitted for stockholder action, including the election of members to the Company's Board of Directors and the approval of significant change in control transactions, and will effectively control the management and

affairs of the Company, which may have the effect of delaying or preventing a change in control of the Company. Although the Company anticipates increasing the number of members on its Board of Directors from three to five members within 90 days of the consummation of the Offering, the Lopkers will nonetheless constitute two of the directors and will therefore have significant influence in directing the actions of the Board of Directors. See "Management" and "Principal Stockholders."

PRODUCT LIABILITY

While the Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims, it is possible that such limitation of liability provisions may not be effective under the laws of certain jurisdictions. Although the Company has not experienced any product liability claims to date, there can be no assurance that the Company will not be subject to such claims in the future. The Company has product liability insurance, but the Company currently does not have errors and omissions coverage, and there can be no assurance that such insurance will be available to the Company on commercially reasonable terms or at all. A successful product liability or errors or omissions claim brought against the Company could have a material adverse effect on the Company's business, operating results and financial condition. Moreover, defending such a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel, either of which could have a material adverse effect on the Company's business, operating results and financial condition.

NO PRIOR MARKET FOR THE COMMON STOCK; VOLATILITY OF STOCK PRICE

Prior to the Offering, there has been no public market for the Company's Common Stock and there can be no assurance that an active trading market for the Common Stock will develop or be sustained after the Offering or that the market price of the Common Stock will not decline below the initial public offering price. The initial public offering price of the Common Stock will be determined by negotiations among the Company and the representatives of the U.S. Underwriters and the Managers, and may not be representative of the price that will prevail in the open market. See "Underwriting" for a discussion of the factors to be considered in determining the initial public offering price.

The market price of the Common Stock after the Offering may be significantly affected by factors such as quarterly fluctuations in the Company's results of operations, demand for the Company's products and services, the size, timing and structure of significant licenses by customers, market acceptance of new or enhanced versions of the company's software products and products that operate with the Company's products, the publication of opinions about the Company, its products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing the Company's products for new markets, delays in sales as a result of lengthy sales cycles, changes in operating expenses, foreign currency exchange rate fluctuations, changes in pricing policies by the Company or its competitors, customer order deferrals in anticipation of product enhancements or new product offerings by the Company or its competitors, the timing of the release of new or enhanced versions of the Company's software products and products that operate with the Company's products, changes in the method of product distribution (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by the Company, customer cancellation of major planned software development programs, general economic factors and other factors, many of which are beyond the Company's control. In future quarters the Company's operating results may be below expectations of public market analysts and investors. In such event, or in the event that adverse conditions prevail or are perceived to prevail generally or with respect to the Company's business, the price of the Company's Common Stock would likely be immediately materially adversely affected. In addition, the stock market has experienced volatility that has particularly affected the market prices of equity securities of many technology companies and that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations, as

well as general economic, political

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and market conditions, such as recessions or international currency fluctuations, may adversely affect the market price of the Common Stock.

ANTI-TAKEOVER PROVISIONS

The Company's Certificate of Incorporation (the "Certificate of Incorporation"), and Bylaws (the "Bylaws"), contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable, including provisions which authorize the issuance of "blank check" preferred stock, provide for a Board of Directors with staggered three-year terms, require super-majority voting to effect certain amendments to the Certificate of Incorporation and Bylaws, limit the persons who may call special meetings of stockholders, and establish advance notice requirements for stockholder nominations for election to the Board of Directors or for stockholder proposals of business to be considered at stockholders meetings. Certain provisions of Delaware law may also have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals. See "Description of Capital Stock--Certain Anti-Takeover, Limited Liability and Indemnification Provisions."

POTENTIAL EFFECT OF SHARES ELIGIBLE FOR FUTURE SALE ON MARKET PRICE OF THE COMMON STOCK

Sales of a substantial number of shares of Common Stock after the Offering could adversely affect the market price of the Common Stock and could impair the Company's ability to raise capital through the sale of equity securities. Upon completion of the Offering, the Company will have outstanding 28,274,234 shares of Common Stock (29,136,734 shares if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full), assuming no exercise of options outstanding as of April 30, 1997. Of these shares, the 5,750,000 shares offered hereby (6,612,500 shares if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full) will be freely tradeable without restriction or further registration under the Securities Act of 1933, as amended (the "Act"), unless held by "affiliates" of the Company as that term is defined in Rule 144 under the Act ("Rule 144"). The remaining 22,524,234 shares of Common Stock outstanding upon completion of the Offering are "restricted securities" as that term is defined in Rule 144.

The directors, executive officers and certain other stockholders of the Company holding an aggregate of 20,416,172 outstanding shares of Common Stock and options to purchase 967,000 shares of Common Stock, have agreed pursuant to Lock-Up Agreements that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances. The representatives of the Underwriters have informed the Company that the Underwriters have no current intention to release shares from the Lock-Up Agreements prior to expiration of the 180-day term of such agreements. Any request for release would be evaluated by the representatives of the Underwriters, and the decision whether or not to permit early release of stock would be made dependent upon the facts and circumstances existing at the time of the request. Beginning upon expiration of the Lock-Up Agreements, such shares will be eligible for sale pursuant to Rule 144 or Rule 701 under the Act ("Rule 701") subject to the provisions of such rules and continued vesting. The remaining 2,108,062 outstanding shares of Common Stock and options to purchase 94,000 shares of Common Stock are not subject to Lock-Up Agreements and will become eligible for sale upon completion of the Offering, subject to the provisions of Rule 144, Rule 701 and continued vesting. Approximately 714,596 shares of Common Stock and 35,000 shares of Common Stock subject to exercisable options will be eligible for immediate sale in the public market as of the date of this Prospectus (the "Effective Date"), none of which

shares will be subject to volume and certain other restriction under Rule 144. An additional 1,357,480 outstanding shares of Common Stock will be eligible for sale in the public market 90 days after the Effective Date, of which 1,194,254 outstanding shares will not be subject to volume and certain other

restrictions under Rules 144 and 701. Approximately 20,274,202 shares of Common Stock and 813,666 shares of Common Stock subject to exercisable options will become eligible for sale in the public market 180 days after the Effective Date upon expiration of the Lock-Up Agreements, subject to volume and certain other restrictions of Rule 144. See "Shares Eligible for Future Sale."

NO SPECIFIC PLAN FOR PROCEEDS OF THE OFFERING

The Company has no current specific plans for a significant amount of the net proceeds of the Offering. The principal purposes of the Offering are to provide increased visibility of the Company in a marketplace where many of its competitors are publicly held companies, to create a public market for the Common Stock, to increase the Company's equity capital, to facilitate future access by the Company to public equity market, to repay indebtedness and to fund capital and other investments as well as potential investments and acquisitions. The Company's management will have the discretion to allocate the proceeds of the Offering to uses that the Company's stockholders may not deem desirable. See "Use of Proceeds."

NO DIVIDENDS

The Company has not paid any cash dividends on its shares of capital stock to date. The Company's bank credit agreement also presently prohibits the payment of dividends on the Company's Common Stock. The Company currently anticipates that it will retain any future earnings for use in its business and, therefore, does not anticipate paying any cash dividends in the foreseeable future. See "Dividend Policy."

BENEFITS OF THE OFFERING TO CURRENT STOCKHOLDERS

The Offering will provide substantial benefits to current equity stockholders of the Company. Consummation of the Offering is expected to create a public market for the Common Stock held by the Company's current stockholders, including directors and executive officers of the Company. Current stockholders (including the Company's directors and executive officers) and the Company's directors and executive officers paid an aggregate of approximately \$6.6 million and \$162,000, respectively, for an aggregate of approximately 22,524,234 shares and 19,972,846 shares, respectively, of Common Stock. The Offering will result in gross unrealized gain to such stockholders and directors and executive officers in the aggregate of approximately \$282 million and \$259 million, respectively, at an assumed public offering price of \$13.00 per share.

IMMEDIATE SUBSTANTIAL DILUTION

The initial public offering price is expected to be substantially higher than the book value per share of the outstanding Common Stock. As a result, investors purchasing Common Stock in the Offering will incur immediate substantial dilution in net tangible book value of \$10.22 per share. In addition, the Company has issued options to acquire Common Stock at prices significantly below the initial public offering price. To the extent such outstanding options are exercised, there will be further dilution. See "Dilution" and "Shares Eligible for Future Sale."

USE OF PROCEEDS

Based on an assumed initial public offering price of \$13.00 per share, the Company will receive net proceeds in the amount of approximately \$67.7 million from the sale of shares of Common Stock to be sold by the Company pursuant to the Offering (approximately \$78.1 million if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full), after deducting the underwriting discount and estimated offering expenses payable by the Company.

The principal purposes of the Offering are to provide increased visibility of the Company in a marketplace where many of its competitors are publicly held companies, to create a public market for the Common Stock, to increase the Company's equity capital, to facilitate future access by the Company to public equity markets and to repay indebtedness and fund potential investments and acquisitions.

The Company currently intends to use the net proceeds of the Offering to repay all of its borrowings outstanding under the Company's revolving credit agreement (which totaled approximately \$16.0 million at April 30, 1997) and all of its other indebtedness (which totaled approximately \$3.5 million at April 30, 1997), to fund approximately \$10.0 million in capital expenditures, to fund \$2.0 million in connection with the Company's option to acquire a significant equity interest in a private technology development company and in which the Company has an existing equity investment, and for working capital and general corporate purposes. The Company may also apply a portion of the net proceeds of the Offering to construct facilities and to acquire or invest in other businesses, products and technologies that are complementary to those of the Company. Although, except as described above, the Company has not identified any specific businesses, products or technologies that it may acquire or invest in, nor are there any current agreements or negotiations with respect to any such transactions, the Company from time to time evaluates such opportunities. Pending such uses, the net proceeds will be invested in government securities and other short-term, investment-grade, interest-bearing instruments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its capital stock and currently intends to retain any future earnings to fund the growth of the Company's business. The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company's results of operations, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors.

The Company is restricted by the terms of its outstanding debt and financing agreements from paying cash dividends on its Common Stock, and may in the future enter into loan or other agreements that restrict the payment of cash dividends on the Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" and Note 4 of the Notes to Consolidated Financial Statements.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of April 30, 1997 and such capitalization as adjusted to give effect to the sale by the Company of 5,750,000 shares of Common Stock in the Offering at an assumed initial public offering price of \$13.00 per share (after deducting estimated underwriting discounts and commissions and offering expenses) and the application of net proceeds of the Offering to the Company.

	APRIL 30, 1997	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Notes payable and current installments of long-term debt (1).....	\$ 15,143	\$ --
Long-term debt, less current installments (1).....	4,320	--
Total debt.....	19,463	--
Stockholders' equity:		
Preferred Stock, no par value, actual; par value \$0.001 per share, as adjusted; 5,000,000 shares authorized, none issued and outstanding.....	--	--
Common Stock, no par value, actual; par value \$0.001 per share, as adjusted; 150,000,000 shares authorized; 22,524,234 shares issued and outstanding, actual; and 28,274,234 shares issued and outstanding, as adjusted (2).....	6,554	28
Additional paid-in capital.....	--	74,243
Retained earnings.....	8,099	8,099
Receivable from stockholders.....	(642)	(642)
Unearned compensation--restricted stock.....	(2,255)	(2,255)
Cumulative foreign currency translation adjustment.....	(804)	(804)
Total stockholders' equity.....	10,952	78,669
Total capitalization.....	\$ 30,415	\$ 78,669

(1) See Note 4 of Notes to Consolidated Financial Statements.

(2) Excludes 1,061,000 shares of Common Stock issuable upon exercise of options outstanding as of April 30, 1997 with exercise prices ranging from \$0.12 to \$13.00 per share and with a weighted average exercise price of \$2.73 per share. In May 1997, the Company adopted the QAD Inc. 1997 Stock Incentive Program pursuant to which 4,000,000 shares of Common Stock are reserved for issuance thereunder. See "Management--Executive Compensation," "Description of Capital Stock" and Note 10 of Notes to Consolidated Financial Statements.

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DILUTION

The net tangible book value of the Company at April 30, 1997 was \$11.0 million, or \$0.49 per share of Common Stock. Net tangible book value represents the amount of total tangible assets of the Company (total assets less goodwill, trademarks and copyrights and other intangible assets) reduced by the amount of its total liabilities. After giving effect to the Company's sale of 5,750,000 shares of Common Stock in the Offering at an assumed initial public offering price of \$13.00 per share (assuming no exercise of the Underwriters' and Managers' over-allotment option and after deducting the underwriting discount and estimated offering expenses payable by the Company), the Company's pro forma net tangible book value at April 30, 1997 would have been \$78.7 million, or \$2.78 per share of Common Stock. This represents an immediate increase in net tangible book value of \$2.29 per share to the Company's existing stockholders and an immediate dilution in net tangible book value of \$10.22 per share to new investors purchasing shares of Common Stock in the Offering. The following table illustrates the per share dilution in net tangible book value to new investors:

Assumed initial public offering price per share.....	\$	13.00
Net tangible book value per share at April 30, 1997.....	\$	0.49
Increase in net tangible book value per share attributable to new		

investors.....	2.29
Pro forma net tangible book value per share after the Offering.....	2.78
Dilution per share to new investors.....	\$ 10.22

The following table sets forth on an as adjusted basis as of April 30, 1997, the differences in the number of shares of stock purchased, the consideration paid and the average price per share paid to the Company by the existing stockholders and by investors purchasing shares of Common Stock in the Offering at an assumed initial public offering price of \$13.00 per share (assuming no exercise of the U.S. Underwriters' and Managers' over-allotment option and before deducting the underwriting discount and estimated offering expenses):

	STOCK PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders.....	22,524,234	80%	\$ 6,554,000	8%	\$ 0.29
New investors.....	5,750,000	20	74,750,000	92	13.00
Total.....	28,274,234	100%	\$ 81,304,000	100%	

The preceding table assumes no exercise of any stock options outstanding as of April 30, 1997. As of April 30, 1997, there were options outstanding to purchase a total of 1,061,000 shares of Common Stock with exercise prices ranging from \$0.12 to \$13.00 per share and with a weighted average exercise price of \$2.73 per share. If all options outstanding as of April 30, 1997 had been exercised as of such date, the dilution per share to new investors in the Offering would be \$10.12. In May 1997, the Company adopted the QAD Inc. 1997 Stock Incentive Program pursuant to which 4,000,000 shares of Common Stock were reserved for issuance thereunder. As of the date of this Prospectus, no stock options had been granted or shares issued under the Program. To the extent that options are granted and subsequently exercised or shares are issued under the Program, new investors may experience further dilution. See Note 10 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the Consolidated Financial Statements and the Notes thereto and the other financial information included elsewhere in this Prospectus. The statement of income data for the fiscal years ended December 31, 1994 and 1995 and January 31, 1997 and the balance sheet data at January 31, 1996 and 1997 are derived from the Consolidated Financial Statements included elsewhere in this Prospectus which have been audited by KPMG Peat Marwick LLP, independent auditors. The statement of income data for the fiscal years ended December 31, 1992 and 1993 and the balance sheet data at December 31, 1992, 1993, 1994 and 1995 are derived from financial statements not included herein which have been audited by KPMG Peat Marwick LLP, independent auditors. The selected financial data for the three months ended April 30, 1996 and 1997 are unaudited but have been prepared on the same basis as the audited financial statements and, in the opinion of management, contain all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations for such periods. The results of operations for the three months ended April 30, 1997 are not necessarily indicative of results to be expected for the year or for any future period.

	YEAR ENDED						
	DECEMBER 31,					QUARTER ENDED	
						APRIL 30,	
	1992	1993	1994	1995	1997	1996	1997
(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)							
STATEMENT OF INCOME DATA:							
Revenue:							
License fees.....	\$15,408	\$27,525	\$48,665	\$63,756	\$85,753	\$ 11,070	\$19,149
Maintenance and other.....	12,666	19,018	17,695	26,193	40,691	9,046	12,924
Total revenues.....	28,074	46,543	66,360	89,949	126,444	20,116	32,073
Cost and expenses:							
Cost of revenues.....	6,643	11,125	18,944	23,599	29,158	6,863	8,462
Sales and marketing.....	10,043	15,526	21,552	38,341	53,258	13,728	13,566
Research and development.....	2,344	4,025	10,618	17,037	25,623	5,921	6,171
General and administrative.....	5,479	9,425	11,162	13,618	16,083	3,804	3,557
Total cost and expenses.....	24,509	40,101	62,276	92,595	124,122	30,316	31,756
Operating income (loss).....	3,565	6,442	4,084	(2,646)	2,322	(10,200)	317
Other (income) expense:							
Interest income.....	(21)	(9)	(34)	(38)	(52)	--	(48)
Interest expense.....	111	232	462	825	1,657	429	435
Other.....	786	886	(99)	48	(797)	(146)	(803)
Total other (income) expense.....	876	1,109	329	835	808	283	(416)
Income (loss) before income taxes.....	2,689	5,333	3,755	(3,481)	1,514	(10,483)	733
Income tax expense (benefit).....	1,100	1,860	877	(2,795)	514	(3,166)	173
Income before cumulative effect of change in accounting principle.....	1,589	3,473	2,878	(686)	1,000	(7,317)	560
Cumulative effect of change in accounting principle.....	--	221	--	--	--	--	--
Net income (loss).....	\$ 1,589	\$ 3,694	\$ 2,878	\$ (686)	\$ 1,000	\$ (7,317)	\$ 560
Net income (loss) per share (1).....	\$ 0.08	\$ 0.18	\$ 0.12	\$ (0.03)	\$ 0.04	\$ (0.33)	\$ 0.02
Shares used in computing net income (loss) per share (1)....	20,788	20,788	23,887	21,889	23,534	22,167	24,015

	DECEMBER 31,				JANUARY 31,		APRIL 30,
	1992	1993	1994	1995	1996	1997	1997
(IN THOUSANDS)							
BALANCE SHEET DATA:							
Cash and cash equivalents.....	\$ 390	\$ 1,413	\$ 1,706	\$ 1,519	\$ 1,463	\$ 301	\$ 1,306
Working capital (deficit).....	2,229	5,015	2,271	(2,814)	(5,850)	(6,609)	(12,216)
Total assets.....	14,022	26,489	44,361	68,466	65,107	77,250	81,193
Notes payable and current installments of long-term debt....	1,588	2,630	4,767	9,610	11,694	8,465	15,143
Long-term debt, less current installments.....	571	1,380	4,677	7,341	7,097	5,036	4,320
Total stockholders' equity.....	3,527	7,098	11,993	11,732	9,023	10,804	10,952

(1) See Note 1 of Notes to Consolidated Financial Statements for an explanation of shares used in computing net income (loss) per share.

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

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH IN THIS SECTION AS WELL AS THOSE UNDER THE CAPTION "RISK FACTORS" APPEARING ELSEWHERE IN THIS PROSPECTUS.

INTRODUCTION

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus. Effective February 1, 1996, the Company changed its financial reporting year end from December 31 to January 31. The Company's fiscal years ending on or prior to December 31, 1995 ended December 31. All references to

"fiscal 1996" refer to the 12-month period ended January 31, 1997.

OVERVIEW

Founded in 1979, the Company is a provider of ERP software for multinational and other large manufacturing companies. In 1986, the Company commercially released its open, client/server based ERP application, MFG/PRO software. Since that time, the Company has introduced several new generations of its MFG/PRO software, and has significantly expanded its operations. As of April 30, 1997, the Company had 700 employees, over 20 direct sales and support offices and 40 distributors worldwide, and approximately 1,880 customers in over 70 countries. Total revenues have grown rapidly in recent years, increasing from \$28.1 million in 1992 to \$126.4 million in fiscal 1996.

The Company derives its revenue from license fees, maintenance contracts and other products and services. License fees are primarily derived from the licensing of the Company's MFG/PRO software. License fees also include fees received by the Company for licenses of third-party software sold in conjunction with MFG/PRO software. Maintenance and other revenue consists primarily of maintenance contracts and, to a lesser extent, revenue from consulting, training and other services. Maintenance contract revenue typically represents 15% of the software license list price (net of any distributor discounts) and is recognized ratably over the life of the contract, which is typically 12 months. The Company has made a strategic decision to rely increasingly on its network of third-party distribution and implementation alliances to provide hardware, consulting and implementation services. As a result, the Company's revenue related to license fees and maintenance contracts as a percentage of total revenues has increased from 72% in fiscal 1992 to 94% in fiscal 1996.

License fees for the Company's products generally range from \$50,000 to several million dollars, depending on the configuration of the products, the number of sites and the number of users. No single customer has accounted for greater than 10% of the Company's total revenues in any of the Company's last three fiscal years. However, it is not uncommon for QAD to conclude a multi-million dollar contract with a single customer, and the Company expects revenue from large individual licenses to increase as a percentage of total revenues.

The sales cycle for the Company's products is typically four to 15 months. Like many enterprise software companies, the Company has experienced in the past and expects to continue to experience seasonal fluctuations in its operating results. The Company has generally realized lower total revenues (i) in July and August, due primarily to reduced economic activity in Europe during that period and (ii) to a lesser extent, in the first two months of the calendar year, due to a concentration of customers which purchase products in the fourth calendar quarter, and their resulting lower purchasing activity during the immediately following months. In addition, like many enterprise software companies, the Company also typically realizes a significant portion of its software license revenue in the last month of each quarter.

However, unlike a number of the Company's competitors, the Company does not derive material revenue from the provision of implementation services in connection with its license sales. As a result, the Company's revenue tends to be less predictable. Furthermore, as a private company, QAD has historically focused its efforts primarily on achieving annual financial results, with a significant percentage of the Company's sales force compensation based on the achievement of annual revenue goals. The Company believes that such practice has also contributed to the weighting of total revenues to the fourth calendar quarter.

QAD has recently implemented changes designed to mitigate the seasonal and quarterly fluctuations in its operating results. Such changes include the hiring of additional financial personnel who are experienced in quarterly budgeting, including a new Chief Financial Officer and a Director of Financial Planning and

Analysis, the changing of the Company's fiscal year end from December 31 to January 31 and the changing of the Company's planning systems to incorporate quarterly performance goals and quarterly forecasting procedures. Additionally, the Company is introducing quarterly financial incentives into its compensation system. There can be no assurance that such changes will alleviate the seasonal, quarterly or other fluctuations in the Company's financial results or that such changes will have a positive effect at all.

During the year ended December 31, 1995, through the quarter ended April 30, 1997, the Company significantly increased its sales and marketing, service and support and research and development staffs. These increases resulted in substantial growth in the number of its full-time employees (from 521 at March 31, 1995, to 700 at April 30, 1997), the scope of its financial and operating systems and the geographic distribution of its direct sales and support operations (from 12 to 17 countries). These investments were incurred in connection with the Company's strategy to establish and maintain a leadership position as a global supplier of ERP solutions at the plant level as well as to enter new markets such as supply chain management software. QAD believes that such investments were essential in the development of the Company's products and operations. Such commitment of resources has had, and may continue to have, a significant impact on the Company's financial results, including annual and quarterly profitability.

License fees revenue is recognized upon shipment of the software, provided there are no vendor obligations to be fulfilled and collectibility is probable within a 12-month period from date of shipment. Typically, the Company's software licenses do not include significant vendor obligations. Maintenance revenue for ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which is typically 12 months. Other revenue is derived mainly from training, consulting and manual sales. Training and consulting revenue is recognized as the services are performed.

The Company records revenue primarily in United States dollars. However, the Company has historically recorded local expenses in local currency. The Company's reporting currency is the United States dollar. Foreign currency transaction and translation gains and losses are recorded in accordance with Statement of Financial Accounting Standards No. 52. In fiscal 1996, the Company realized \$407,000 in foreign currency transaction gains, compared to losses of \$477,000 and \$343,000 in fiscal 1995 and 1994, respectively. The Company has not previously undertaken hedging transactions to cover its currency exposure, but may implement programs to mitigate foreign currency exposure risk in the future as management deems appropriate. See "Risk Factors--Risks Associated With International Operations" and "--Exposure To Currency Fluctuations."

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RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage of total revenues represented by certain items reflected on the Company's Consolidated Statements of Income:

	YEAR ENDED			QUARTER ENDED	
	DECEMBER 31,		JANUARY 31,	APRIL 30,	
	1994	1995	1997	1996	1997
Revenue:					
License fees.....	73%	71%	68%	55%	60%
Maintenance and other.....	27	29	32	45	40
Total revenues.....	100%	100%	100%	100%	100%
Cost and expenses:					
Cost of revenues.....	29	26	23	34	27
Sales and marketing.....	32	43	42	68	42
Research and development.....	16	19	20	30	19

General and administrative.....	17	15	13	19	11
	---	---	---	---	---
Total cost and expenses.....	94	103	98	151	99
	---	---	---	---	---
Operating income (loss).....	6	(3)	2	(51)	1
Other (income) expense:					
Interest income.....	(0)	(0)	(0)	--	0
Interest expense.....	1	1	1	2	1
Other.....	(0)	0	(0)	(1)	(3)
	---	---	---	---	---
Total other (income) expense.....	1	1	1	1	(2)
	---	---	---	---	---
Income (loss) before income taxes.....	5	(4)	1	(52)	3
Income tax expense (benefit).....	1	(3)	0	(16)	1
	---	---	---	---	---
Net income (loss).....	4%	(1)%	1%	(36)%	2%
	---	---	---	---	---

INTERIM RESULTS FOR THE QUARTERS ENDED APRIL 30, 1997 AND 1996

TOTAL REVENUES. Total revenues for the three months ended April 30, 1997 increased 59% to \$32.1 million from \$20.1 million in the same period in 1996. For the three months ended April 30, 1997, license fees as a percentage of total revenues increased to 60% as compared to 55% in the same period in 1996. The increase in total revenues was primarily due to growing acceptance of the Company's MFG/PRO software, continued market penetration into its targeted vertical markets and the Company's expansion into new geographical markets. The increase in license fees and the decline in maintenance and other revenue as a percentage of total revenues resulted primarily from increased license fee sales in the first quarter of 1997 as compared to the same period in 1996.

COST OF REVENUES. Cost of revenues consists primarily of charges incurred from reselling third-party databases (and their associated maintenance contracts) which are required to run MFG/PRO software, support costs associated with MFG/PRO software maintenance contracts and the costs associated with the reproduction and delivery of the Company's software. During the three months ended April 30, 1997, cost of revenues increased 23% to \$8.5 million from \$6.9 million in the same period in 1996. For the three months ended April 30, 1997, cost of revenues as a percentage of total revenues decreased to 27% from 34% during the same period in 1996. The increase in dollar amount was primarily the result of costs associated with the growth in revenues of reselling third-party databases. The decrease in cost of revenues as a percentage of total revenues was primarily due to increased sales of MFG/PRO software licenses where the purchase of third-party tools and databases were deferred or where the licensee obtained licenses of third-party tools and databases directly from the third-party vendor.

SALES AND MARKETING. Sales and marketing expense consists primarily of salaries and associated fringe benefits, travel and entertainment expenses and promotional and advertising costs. During the three months ended April 30, 1997, sales and marketing expense decreased 1% to \$13.6 million from \$13.7 million in the same period in 1996. For the three months ended April 30, 1997, sales and marketing expense as a percentage of total revenues decreased to 42% from 68% during the same period in 1996. The first quarter of 1996 included substantial expenses related to the Company's annual user conference, which did not occur during the same period in 1997. The decrease in sales and marketing expense as a percentage of total revenues was primarily due to the nonrecurring marketing infrastructure expenses that were made in the first quarter of fiscal 1996, the adjustment of sales and marketing expense made in the three months ended April 30, 1997 to better match anticipated revenue and the expenses related to the Company's annual user conference in the first quarter of fiscal 1996.

RESEARCH AND DEVELOPMENT Research and development expense consists primarily of salaries and associated fringe benefits, related overhead expenses and amounts paid to consultants and third party developers to supplement the

product development efforts of the Company's in-house staff. During the three months ended April 30, 1997, research and development expense increased 4% to \$6.2 million from \$5.9 million in the same period in 1996. In the first quarter of 1997, research and development expense as a percentage of total revenues decreased from 30% to 19% from the same period in 1996. The increase in research and development expense was primarily due to ongoing product enhancements. The decrease in research and development expense as a percentage of total revenues was primarily the result of a reduction in the utilization of third-party software developers. Such reduction in the use of third-party developers was accomplished through increased internal staffing within the research and development department.

In accordance with Statement of Financial Accounting Standards No. 86, the Company expenses software development costs as they are incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. To date, the establishment of technological feasibility of the Company's products and general release of such software have substantially coincided. As a result the Company has not capitalized any material amount of software development costs.

GENERAL AND ADMINISTRATIVE. During the three months ended April 30, 1997, general and administrative expense decreased 6% to \$3.6 million from \$3.8 million in the same period in 1996. During the three months ended April 30, 1997, general and administrative expense as a percentage of total revenues decreased to 11% from 19% during the same period in 1996. The decreases in general and administrative expense in both dollar amount and as a percentage of total revenues were primarily the result of the adjustment of general and administrative expense to better match anticipated revenue. The Company anticipates increases in general and administrative expense in the future.

TOTAL OTHER (INCOME) EXPENSE. Total other (income) expense is composed primarily of interest expense, interest income and foreign exchange gains and losses as well as other miscellaneous income and expense. During the three months ended April 30, 1997, other (income) expense increased to \$(416,000) from \$283,000 in the same period in 1996. This increase was primarily the result of increased foreign currency transaction gains and miscellaneous rental income.

FISCAL YEARS 1996, 1995 AND 1994

TOTAL REVENUES. Total revenues increased 41% to \$126.4 million in fiscal 1996 from \$89.9 million in fiscal 1995, and increased 36% in fiscal 1995 from \$66.4 million in fiscal 1994. License fees as a percentage of total revenues decreased to 68% in fiscal 1996 from 71% in fiscal 1995 and 73% in fiscal 1994. The dollar increases in total revenues were primarily due to growing acceptance of the Company's MFG/PRO software, continued market penetration into its targeted vertical markets and the Company's expansion into new geographical markets. The decreases in license fees and increases in maintenance and other revenue as a percentage of total revenues were primarily a result of increased maintenance renewals.

COST OF REVENUES. Cost of revenues increased 24% to \$29.2 million in fiscal 1996 from \$23.6 million in fiscal 1995, and increased 25% in fiscal 1995 from \$18.9 million in fiscal 1994. Cost of revenues as a

percentage of total revenues decreased to 23% in fiscal 1996 from 26% in fiscal 1995 and 29% in fiscal 1994. The increase in dollar amount was primarily the result of costs associated with the year over year growth in revenues of reselling third-party databases. The decrease in cost of revenues as a percentage of total revenues was primarily due to increased sales of MFG/PRO

software licenses where the purchase of third-party tools and databases were deferred or where the licensee obtained licenses of third-party tools and databases directly from the third-party vendor.

SALES AND MARKETING. Sales and marketing expense increased 39% to \$53.3 million in fiscal 1996 from \$38.3 million in fiscal 1995, and increased 78% in fiscal 1995 from \$21.5 million in fiscal 1994. Sales and marketing expense as a percentage of total revenues decreased to 42% in fiscal 1996 from 43% in fiscal 1995 and 32% in fiscal 1994. The dollar increases as well as the increase as a percentage of total revenues were primarily due to the expansion of the Company's global sales force, opening and supporting global sales offices and increasing marketing expense to promote the Company's name and products. The expansion was initiated in fiscal 1995 and continued into fiscal 1996.

RESEARCH AND DEVELOPMENT. Research and development expense increased 50% to \$25.6 million in fiscal 1996 from \$17.0 million in fiscal 1995, and increased 60% in fiscal 1995 from \$10.6 million in fiscal 1994. Research and development expense as a percentage of total revenues increased to 20% in fiscal 1996 from 19% in fiscal 1995 and 16% in fiscal 1994. The increases in research and development expense both in dollar amount and as a percentage of total revenues were primarily due to ongoing enhancements to MFG/PRO software, including the ongoing migration of MFG/PRO software to object-oriented technology. In addition, the increases were due to increased staffing of, and associated support for, product engineers in connection with efforts to develop On/Q, the Company's new supply chain management software which the Company expects to be commercially available in the second half of fiscal 1998, and Qwizard, a computer-based interactive training tool which became commercially available in May 1997.

GENERAL AND ADMINISTRATIVE. General and administrative expense increased 18% to \$16.1 million in fiscal 1996 from \$13.6 million in fiscal 1995, and increased 22% in fiscal 1995 from \$11.2 million in fiscal 1994. General and administrative expense as a percentage of total revenues decreased to 13% in fiscal 1996 from 15% in fiscal 1995 and 17% in fiscal 1994. The dollar increases in general and administrative expense were primarily the result of costs associated with the expansion of the Company's administrative infrastructure to support increases in the Company's total revenues. In addition, the Company recognized compensation expense of \$648,000 and \$2.4 million in fiscal 1996 and fiscal 1995, respectively, in connection with the repurchase of stock held by employees upon their departure from the Company. The Company does not intend to make such repurchases following completion of the Offering. The decrease in general and administrative expense as a percentage of total revenues resulted from total revenues growing faster than general and administrative expense. See Note 10 of Notes to Consolidated Financial Statements.

TOTAL OTHER (INCOME) EXPENSE. Total other (income) expense decreased 3% to \$808,000 in fiscal 1996 from \$835,000 in fiscal 1995, and increased 154% in fiscal 1995 from \$329,000 in fiscal 1994. The decrease in fiscal 1996 was primarily the result of foreign currency transaction gains and miscellaneous rental income offset by increased interest expense. The increase in fiscal 1995 was the result of increased interest expense.

INCOME TAX EXPENSE (BENEFIT). The Company recorded income tax expense (benefit) of \$514,000, \$(2.8) million and \$877,000 in fiscal 1996, 1995 and 1994, respectively. The Company's effective income tax rates were 34% and 23 % in fiscal 1996 and 1994, respectively. The Company's effective income tax rate historically has benefitted from the United States research and development tax credit and tax benefits generated from export sales made from the United States. The tax benefit recorded in 1995 relates primarily to loss carrybacks and carryforwards associated with the Company's entry into new foreign taxing jurisdictions and anticipated future taxable income to be earned in such

jurisdictions. The Company has available tax benefits associated with net operating loss carryforwards of foreign subsidiaries aggregating \$5.1 million at January 31, 1997. See Note 6 of the Notes to Consolidated Financial Statements.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth a summary of the Company's unaudited quarterly results for the nine quarters ended April 30, 1997, together with the percentage of total revenues represented by such results. This information has been derived from the Company's unaudited quarterly consolidated financial statements. In management's opinion, these quarterly results have been prepared on a basis consistent with the audited Consolidated Financial Statements and the Notes thereto contained elsewhere herein, and include all adjustments (constituting only normal recurring adjustments), which the Company considers necessary for a fair presentation of the information. The operating results for any certain quarter are not necessarily indicative of results for any future period.

	QUARTER ENDED					
	APRIL 30, 1995	JULY 31, 1995	OCT. 31, 1995	JAN. 31, 1996	APRIL 30, 1996	JULY 31, 1996
	(IN THOUSANDS)					
STATEMENT OF INCOME DATA:						
Revenue:						
License fees.....	\$ 9,025	\$ 19,181	\$ 12,306	\$ 21,271	\$ 11,070	\$ 23,151
Maintenance and other.....	5,519	6,026	7,393	8,298	9,046	10,404
Total revenues.....	14,544	25,207	19,699	29,569	20,116	33,555
Cost and expenses:						
Cost of revenues.....	5,145	6,021	6,066	6,779	6,863	7,177
Sales and marketing.....	7,764	9,827	9,702	12,596	13,728	12,430
Research and development.....	3,906	3,847	4,593	5,338	5,921	5,438
General and administrative.....	2,448	2,957	2,495	5,753	3,804	3,047
Total cost and expenses.....	19,263	22,652	22,856	30,466	30,316	28,092
Operating income (loss).....	(4,719)	2,555	(3,157)	(897)	(10,200)	5,463
Other (income) expense:						
Interest income.....	(14)	(18)	6	(8)	--	(8)
Interest expense.....	158	263	149	339	429	479
Other.....	(333)	126	(107)	262	(146)	(75)
Total other (income) expense.....	(189)	371	48	593	283	396
Income (loss) before income taxes.....	(4,530)	2,184	(3,205)	(1,490)	(10,483)	5,067
Income tax expense (benefit).....	(2,496)	1,203	(1,766)	(821)	(3,166)	1,554
Net income (loss).....	\$ (2,034)	\$ 981	\$ (1,439)	\$ (669)	\$ (7,317)	\$ 3,513
AS A PERCENTAGE OF TOTAL REVENUES:						
Revenue:						
License fees.....	62%	76%	62%	72%	55%	69%
Maintenance and other.....	38	24	38	28	45	31
Total revenues.....	100%	100%	100%	100%	100%	100%
Cost and expenses:						
Cost of revenues.....	35	24	31	23	34	22
Sales and marketing.....	53	39	49	43	68	37
Research and development.....	27	15	23	18	30	16
General and administrative.....	17	12	13	19	19	9
Total cost and expenses.....	132	90	116	103	151	84
Operating income (loss).....	(32)	10	(16)	(3)	(51)	16
Other (income) expense:						
Interest income.....	(0)	(0)	0	(0)	--	(0)
Interest expense.....	1	1	1	1	2	1
Other.....	(2)	0	(1)	1	(1)	(0)
Total other (income) expense.....	(1)	1	0	2	1	1
Income (loss) before income taxes.....	(31)	9	(16)	(5)	(52)	15
Income tax expense (benefit).....	(17)	5	(9)	(3)	(16)	5
Net income (loss).....	(14)%	4%	(7)%	(2)%	(36)%	10%

	OCT. 31, 1996	JAN. 31, 1997	APRIL 30, 1997
STATEMENT OF INCOME DATA:			
Revenue:			
License fees.....	\$ 13,915	\$ 37,617	\$ 19,149
Maintenance and other.....	9,891	11,350	12,924
Total revenues.....	23,806	48,967	32,073
Cost and expenses:			
Cost of revenues.....	6,341	8,777	8,462
Sales and marketing.....	11,210	15,890	13,566
Research and development.....	6,096	8,168	6,171
General and administrative.....	3,784	5,448	3,557
Total cost and expenses.....	27,431	38,283	31,756
Operating income (loss).....	(3,625)	10,684	317
Other (income) expense:			
Interest income.....	(21)	(23)	(48)
Interest expense.....	396	353	435
Other.....	25	(601)	(803)
Total other (income) expense.....	400	(271)	(416)
Income (loss) before income taxes.....	(4,025)	10,955	733
Income tax expense (benefit).....	(1,235)	3,361	173
Net income (loss).....	\$ (2,790)	\$ 7,594	\$ 560
AS A PERCENTAGE OF TOTAL REVENUES:			
Revenue:			
License fees.....	58%	77%	60%
Maintenance and other.....	42	23	40
Total revenues.....	100%	100%	100%
Cost and expenses:			
Cost of revenues.....	27	18	27
Sales and marketing.....	47	32	42
Research and development.....	25	17	19
General and administrative.....	16	11	11
Total cost and expenses.....	115	78	99
Operating income (loss).....	(15)	22	1
Other (income) expense:			
Interest income.....	(0)	(0)	(0)
Interest expense.....	2	1	1
Other.....	0	(1)	(3)
Total other (income) expense.....	2	0	(2)
Income (loss) before income taxes.....	(17)	22	3
Income tax expense (benefit).....	(5)	7	1
Net income (loss).....	(12)%	15%	2%

The Company's quarterly revenue, expenses and operating results have varied significantly in the past, and the Company anticipates that such fluctuations will continue in the future as a result of a number of factors, many of which are outside the Company's control. The factors affecting these fluctuations include demand for the Company's products and services, the size, timing and structure of significant licenses by customers, market acceptance of new or enhanced versions of the Company's software products and products that operate with the Company's products, the publication of opinions about the Company, its products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing the Company's products for new markets, delays in sales as a result of lengthy sales cycles, changes in operating expenses, foreign currency exchange rate fluctuations, changes in pricing policies by the Company or its competitors, customer order deferrals in anticipation of product enhancements or new product offerings by the Company or its competitors, the timing of the release of new or enhanced versions of the Company's software products and products that operate with the Company's products, changes in the method of product distribution (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by the Company, customer cancellation of major planned software development programs and general economic factors.

A significant portion of the Company's revenue in any quarter may be derived

from a limited number of large, non-recurring license sales. For example, revenue from four customers represented approximately 22% of license fees in the quarter ended April 30, 1997. The Company expects to continue to experience from time to time large, individual license sales which may cause significant variations in quarterly license fees. The Company also believes that the purchase of its products is relatively discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any potential customer's business could result in order cancellations which could have a significant adverse impact on the Company's revenue and quarterly results. Moreover, declines in general economic conditions could precipitate significant reductions in corporate spending for information technology, which could result in delays or cancellations of orders for the Company's products.

The Company has also historically recognized a substantial portion of its revenue from sales booked and shipped in the last month of a quarter. As a result, the magnitude of quarterly fluctuations in license fees may not become evident until late in, or at the end of, a particular quarter. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company is unlikely to be able to generate revenue from alternate sources in time to compensate for the shortfall. As a result, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results. To the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. The Company has also historically operated with little backlog because its products are generally shipped as orders are received. As a result, revenue from license fees in any quarter is substantially dependent on orders booked and shipped in that quarter and on sales by the Company's distributors and other resellers. Sales derived through indirect channels are harder to predict and may have lower profit margins than direct sales.

The Company has generally realized lower revenue (i) in July and August, due primarily to reduced economic activity in Europe in the summer months; and (ii) to a lesser extent, in the first two months of the calendar year, due to the concentration by some customers of purchases in the fourth quarter of the calendar year, and their consequently lower purchasing activity during the immediately following months. In addition, like many software companies, the Company typically realizes a significant portion of its software license revenue in the last month of the quarter and in the last quarter of the year. However, unlike a number of the Company's competitors, the Company does not derive material revenue from the provision of services in connection with its license sales. As a result, a greater proportion of the Company's revenue tends to be less predictable and to occur later in the quarter and in the year than the revenue of competitors who provide such services.

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The Company's expense levels are relatively fixed and are based, in significant part, on expectations of future revenue. Consequently, if revenue levels are below expectations, expense levels could be disproportionately high as a percentage of total revenue, and operating results would be immediately and adversely affected and losses could occur.

Based upon the factors described above, the Company believes that its quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of its results of operations are not necessarily meaningful and that, as a result, such comparisons should not be relied upon as indications of future performance. Moreover, although the Company's revenue has generally increased in recent periods, there can be no assurance that the Company's revenue will grow in future periods, at past rates or at all, or that the Company will be profitable on a quarterly or annual basis. The Company has in the past experienced and may in the future experience quarterly losses.

QAD has recently implemented changes designed to mitigate the seasonal and quarterly fluctuations in its operating results. Such changes include the hiring of additional financial personnel including a new Chief Financial Officer and a Director of Financial Planning and Analysis, the changing of the Company's fiscal year end from December 31 to January 31 and the changing of the Company's

planning systems to incorporate quarterly performance goals and quarterly forecasting procedures. Additionally, the Company is introducing quarterly financial incentives into its compensation system. There can be no assurance that such changes will alleviate the seasonal, quarterly or other fluctuations in the Company's financial results or that such changes will have a positive effect at all. See "Risk Factors--Seasonality of Operating Results."

TOTAL REVENUES. Total revenues increased in each of the five quarters ended April 30, 1997 as compared to the corresponding quarters in the prior year. License fees as a percentage of total revenues have fluctuated between 55% and 77% for the nine quarters ended April 30, 1997. The dollar increases in total revenues were primarily due to growing market acceptance of the Company's MFG/PRO software and continued market penetration into its targeted vertical markets as well as expansion into new geographic markets. The fluctuations in license fees as a percentage of total revenues were primarily a result of significant variations in license fees from quarter to quarter, although maintenance and other revenue has generally increased from quarter to quarter. There can be no assurance that revenue will continue to grow in future periods at historical rates or at all, or that the Company will remain profitable.

COST OF REVENUES. Cost of revenues generally increased in dollar amount for the nine quarters ended April 30, 1997. Cost of revenues as a percentage of total revenues fluctuated between 18% and 35% for the nine quarters ended April 30, 1997. The dollar increases in cost of revenues were primarily due to the costs associated with increased sales of the Company's MFG/PRO software. The fluctuations in cost of revenues as a percentage of total revenues were primarily a result of fluctuations in sales of MFG/PRO software licenses and where the purchase of third-party databases and associated maintenance contracts were deferred or obtained directly from the vendor.

SALES AND MARKETING. Sales and marketing expense generally increased for the nine quarters ended April 30, 1997. Sales and marketing expense fluctuated between 32% and 68% of total revenues for the nine quarters ended April 30, 1997. Sales and marketing expense generally increased in dollar amount during the nine quarters ended April 30, 1997 primarily as a result of expansion of the Company's sales and marketing group to better promote and sell MFG/PRO software. Historically, sales and marketing expense generally has been highest in dollar amount in the fourth quarter as certain costs such as travel and entertainment and commissions are incurred in connection with increased sales efforts and closing of sales at year end. In the quarter ended July 31, 1996, the Company adjusted sales and marketing costs to better match expense to anticipated revenue. Fluctuations in sales and marketing expense as a percentage of total revenues were primarily due to quarterly fluctuations in the Company's license fees. The Company expects to increase sales and marketing staffing levels and to incur associated costs in future periods.

RESEARCH AND DEVELOPMENT. Research and development expense generally increased in dollar amount for the nine quarters ended April 30, 1997. Research and development expense fluctuated between 15% and 30% of total revenues for the nine quarters ended April 30, 1997. The increases in dollar amount for research and development expense have resulted primarily from increased staffing of, and associated support for, product engineers in connection with efforts to develop On/Q, the Company's new supply chain management software which the Company expects to be commercially available in the second half of fiscal 1998, and Qwizard, a computer-based interactive training tool which became commercially available in May 1997. The increase in dollar amount in the quarter ended January 31, 1997 was primarily due to expenses associated with the release of the most recent version of MFG/PRO software, including a substantial increase in the use of third-party developers in connection therewith. The Company's research and development expense has been budgeted according to annual revenue expectations as well as the Company's development schedule for new products and updates to MFG/PRO software. As a result, research and development expense as a percentage of total revenues has varied significantly during the nine quarters

ended April 30, 1997 due to fluctuations in total revenues.

GENERAL AND ADMINISTRATIVE. General and administrative expense has fluctuated between 9% and 19% of total revenues for the nine quarters ended April 30, 1997. The variations in general and administrative expense as a percentage of total revenues were primarily due to variations in the quarter to quarter total revenues and the fixed nature of certain components of the Company's general and administrative expense. General and administrative expense increased from \$2.4 million in the quarter ended April 30, 1995 to \$5.8 million in the quarter ended January 31, 1996, primarily as a result of expansion of the Company's administrative and information technology infrastructure in conjunction with the expansion of the Company's operations. In addition, in the quarters ended January 31, 1997 and 1996 general and administrative expense increased due to compensation expense of \$648,000 and \$2.4 million, respectively, in connection with the repurchase of stock held by employees upon their departure from the Company. The Company does not intend to make such repurchases following completion of the Offering. See Note 10 of "Notes to Consolidated Financial Statements." In the quarter ended July 31, 1996, the Company adjusted costs, including restructuring compensation, to better match expenses to anticipated revenue. In the quarter ended January 31, 1997, certain sales targets were met and general and administrative expense increased, largely due to the restructuring of the compensation plan.

TOTAL OTHER (INCOME) EXPENSE. Total other (income) expense fluctuated in dollar amount for the nine quarters ended April 30, 1997. Total other (income) expense fluctuated between (2)% and 2% of total revenues for the nine quarters ended April 30, 1997. The quarterly fluctuations in the dollar amount of total other (income) expense were primarily related to varied amounts of debt borrowings and the related interest expense. In addition, in each of the quarters ended January 31, 1997 and April 30, 1997, the Company experienced foreign currency transaction gains and miscellaneous rental income.

FISCAL YEAR TRANSITION PERIOD

As a result of the change in the Company's fiscal year end in 1996, the Company is disclosing interim financial results for the one-month period ended January 31, 1996. Total revenues, total cost and expenses, total other (income) expense and net income (loss) were \$3.5 million, \$7.3 million, \$65,000 and \$(2.9) million, respectively, for the one-month period. During that month, the Company experienced normal monthly operational costs including planned increases in headcount for the coming year. The net loss for this period reflects these planned increases in conjunction with seasonally low revenue in the month of January.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has financed its operations and met its capital expenditure requirements through cash flows from operations and short- and long-term borrowings. At April 30, 1997, the Company had \$1.3 million of cash. Cash flows provided by (used in) operating activities were \$(2.1)

million, \$6.7 million, \$4.3 million and \$4.3 million in the three months ended April 30, 1997, and fiscal 1996, 1995 and 1994, respectively. Cash used in investing activities was primarily related to the purchase of computer equipment, office furniture and real estate and aggregated \$2.4 million, \$3.4 million, \$9.5 million and \$9.8 million in the three months ended April 30, 1997, and fiscal 1996, 1995 and 1994, respectively. Cash flows from financing activities in the three months ended April 30, 1997, and fiscal 1996, 1995 and 1994 were primarily related to net proceeds from (used in) borrowings and proceeds from the sale of stock to employees and totaled \$5.5 million, \$(4.5) million, \$5.0 million and \$5.8 million, respectively. At April 30, 1997, the Company did not have any material commitments for capital expenditures.

At April 30, 1997, the Company had a working capital deficit of \$12.2 million. Accounts receivable, net of allowance for doubtful accounts, decreased to \$43.8 million at April 30, 1997 from \$46.7 million at January 31, 1997. The Company's accounts receivable days' sales outstanding ("DSO"), calculated on a quarterly basis (for quarters ending on April 30, July 31, October 31, and January 31), has ranged from 134 days to 66 days over the last three years and has demonstrated seasonal fluctuations. During each of those years, DSO peaked in the quarter ended April 30 and (except for fiscal 1995) improved significantly during the middle two quarters. The Company believes that the days' sales outstanding are higher than desired and the Company is focusing on its credit and collection processes to improve cash flows and working capital. These efforts include a recruiting effort for a new credit and collections manager, along with a complete review of credit policies and collection procedures. If the Company is unsuccessful in reducing the day's sales outstanding through such efforts, continued high days' sales outstanding could impair the Company's cash position. Total deferred revenue increased to \$30.2 million at April 30, 1997 from \$29.1 million at January 31, 1997 primarily as a result of increased billings of maintenance agreements.

The Company has a revolving credit agreement which expires on July 31, 1998, subject to automatic successive one-year extensions if not terminated by the Company or the lender 90 days prior to the expiration date. The maximum available amount of borrowings under the revolving credit agreement is equal to the lesser of \$20 million or the sum of a percentage of the Company's accounts receivable, \$4 million of which may be used only for loans secured by real estate owned by the Company. The total amount of available borrowings under the revolving credit agreement at April 30, 1997 was approximately \$20 million. Borrowings under the revolving credit agreement bear interest, calculated monthly, at an annual rate equal to the highest LIBOR rate in effect during the month plus 4.875% but in no event less than 8%. Minimum monthly interest charges are \$20,000 (resulting in a rate of 10.565% at April 30, 1997). At April 30, 1997, the Company had approximately \$14.7 million of borrowings outstanding under the revolving credit agreement. The Company's revolving credit agreement is collateralized by a security interest in substantially all of the Company's assets. At April 30, 1997, the Company also had outstanding borrowings of \$4.8 million under additional term loan agreements and capital leases with other various credit institutions, which included approximately \$3.1 million with maturities of one year or less, at interest rates of approximately 9.79% per annum. These term loans and capitalized leases are secured primarily by property and equipment. Amounts outstanding under these additional credit agreements are scheduled to be paid in monthly installments over varying maturities through July 2002. Borrowings under the credit facility during the past 12 months were used for general corporate purposes. The Company intends to repay all the outstanding balances under the revolving credit agreement, the term loan agreements and capital leases with the proceeds of the Offering, although it intends to retain its revolving credit facility for future use. The revolving credit agreement also limits the Company's ability to incur additional indebtedness outside the ordinary course of business without the prior written consent of the lender. The revolving credit agreement includes a number of other restrictions, including the following: (i) restrictions on granting liens or security interest in its assets, (ii) restrictions on any sale of assets of the Company, other than in the ordinary course of its business, or any merger, consolidation or change of control of the Company, (iii) restrictions on lending or advancing funds to any person or entity except to employees in good-faith arms' length transactions in the ordinary course of business and (iv) restrictions on paying or declaring dividends on the Company's stock. The Company is actively negotiating with a different lender to obtain improved credit arrangements.

The Company believes that the net proceeds from the Offering, the available borrowings under its revolving credit agreement and cash generated by operations, will satisfy the Company's working capital requirements for at least

the next 12 months.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Standards Board issued SFAS No. 128, EARNINGS PER SHARE. SFAS No. 128 specifies new standards designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, revising the disclosure requirements and increasing the comparability of EPS data on an international basis. Some of the changes made to simplify the EPS computations include: (a) eliminating the presentation of primary EPS and replacing it with basic EPS, with the principal difference being that common stock equivalents are not considered in computing basic EPS, (b) eliminating the modified treasury stock method and the three percent materiality provision and (c) revising the contingent share provision and the supplemental EPS data requirements. SFAS No. 128 also makes a number of changes to existing disclosure requirements. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The Company has not determined the impact of the implementation of SFAS No. 128.

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BUSINESS

The Company is a provider of Enterprise Resource Planning ("ERP") software for multinational and other large manufacturing companies. The Company's software solutions are designed to facilitate global management of resources and information to allow manufacturers to reduce order fulfillment cycle times and inventories, improve operating efficiencies and measure critical company performance criteria against defined business plan objectives. The flexibility of the Company's products also helps manufacturers adapt to growth, organizational change, business process reengineering, supply chain management and other challenges.

The Company's principal product, MFG/PRO software, is specifically designed for deployment at the plant or division level of global manufacturers in five targeted industry segments: electronics/industrial, food/beverage, consumer packaged goods, medical and automotive. MFG/PRO software provides multinational organizations with an integrated ERP solution that is based on an open, client/server architecture and includes manufacturing, distribution, financial and service/support management applications. Additionally, the Company is currently focused on extending its presence in multi-site manufacturing by developing a line of object-oriented, supply chain management solutions, named On/Q software. The Company's initial On/Q software product, Logistics, is designed to allow for consolidation of orders, contract management, shipping and logistics management. Logistics is currently in development and is expected to be commercially available in the second half of 1998. As of April 30, 1997, the Company had licensed MFG/PRO software at approximately 3,200 sites to approximately 1,880 customers in over 70 countries. The Company's customers include Cargill, Incorporated, Colgate-Palmolive Company, Johnson Controls, Inc., Johnson & Johnson, Lucent Technologies, Inc., Philips Electronics N.V., St. Jude Medical, Inc., Unilever N.V. and United Technologies Automotive.

INDUSTRY BACKGROUND

In recent years, businesses have been subject to increasing global competition, resulting in pressure to lower production costs, improve product performance and quality, increase responsiveness to customers and shorten product development and delivery cycles. In addition, globalization has greatly increased the scope and complexity of multinational manufacturing organizations. Through business process reengineering, many organizations have begun to reengineer their critical business processes and restructure their organizations to accommodate and exploit rapid changes in the business environment. As part of this process, businesses are seeking ERP software solutions which will enable

them to better manage resources across the enterprise and facilitate the integration of sales management, component procurement, inventory management, manufacturing control, project management, distribution, transportation, finance and other functions on a global basis. While historically many companies have developed their ERP software internally, companies are increasingly deploying open, client/server-based ERP applications developed by third parties which reduce internal software development costs and enable increased flexibility and inter-operability across a broad range of hardware and software platforms. The Gartner Group has estimated that the global ERP software market totaled more than \$4.4 billion in 1996 and will grow to an estimated \$10.0 billion by the year 2000.

While current ERP software enables the integration and management of critical data within enterprises, organizations increasingly are recognizing the need to deploy new software systems that manage the global supply chain by enhancing the flow of information to and from customers, suppliers and other business partners outside the enterprise. More recently, the availability and use of the Internet has created a demand for software which will operate across the Internet to enhance business-to-business electronic commerce.

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The Company believes that the increasing complexity and diversity of customer requirements limits the ability of any single-vendor solution to fully meet the enterprise-wide needs of its customers and has led to the emergence of three distinct segments within the ERP software market: (i) corporate; (ii) plant; and (iii) supply chain management.

CORPORATE ERP solutions are primarily focused on the consolidated data management, financial and human resource needs of large Fortune 1000 companies. Leading vendors of corporate level solutions include Oracle, PeopleSoft and SAP. While corporate ERP systems offer robust functionality, the Company believes that the very broad scope, significant cost and limited flexibility of many of these systems limit their effectiveness in addressing the needs of individual plants or divisions. In addition, this limited flexibility makes these systems difficult to deploy throughout the enterprise.

PLANT ERP solutions are primarily focused on the specific needs of manufacturing plants and distribution sites of global companies, such as manufacturing planning, production control and distribution. Leading vendors of plant ERP solutions include the Company, Baan, J.D. Edwards and SSA. Given the diverse and constantly changing needs of manufacturing and distribution sites, ERP users demand highly flexible, industry-specific plant ERP solutions that can be deployed rapidly and cost-effectively across multiple sites on a global basis.

SUPPLY CHAIN MANAGEMENT solutions are designed to link a company more closely with customers, suppliers and other business partners in order to optimize manufacturing and distribution processes, reduce costs and enhance customer satisfaction. Supply chain management functions include logistics and order management, advanced planning and scheduling, global purchasing, and sales and support management. Leading vendors in the supply chain management market include i2, IMI and Manugistics, as well as certain corporate level ERP software vendors. The Company believes that supply chain optimization represents one of the greatest current opportunities for companies to reduce costs and enhance customer relationships.

MARKET OPPORTUNITY

While ERP solutions have provided significant benefits to companies by centralizing and integrating the management of enterprise-wide data, the Company believes that customer requirements for industry-specific functionality, flexibility and ease of implementation pose significant challenges for many ERP vendors. As a result, the Company believes that there is a large and rapidly growing market demand for industry-specific software solutions that meet customers' needs for plant-level deployments and global supply chain management.

The Company believes that the adoption of open, client/server-based ERP solutions at the plant level will accelerate as potential customers transition from proprietary, legacy systems in coming years. In addition, the Company believes that supply chain management represents a compelling market opportunity. To be successful in meeting customer requirements in these market segments, the Company believes ERP software vendors must:

- Offer localized, multi-language, multi-currency functionality to support global deployments;
- Offer industry-specific product functionality and expertise in key vertical markets;
- Provide global service and support, either directly or through third parties;
- Offer ease of implementation and rapid time to benefit;
- Provide flexibility to meet the diverse needs and business practices of global, multi-site manufacturing implementations;

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- Inter-operate and co-exist with corporate-level ERP solutions and industry-leading supply chain management solutions;
- Address supply chain management challenges by offering technology which integrates and optimizes interactions between companies and their customers, suppliers and other business partners; and
- Develop and utilize advanced technologies to deliver superior product functionality.

THE QAD SOLUTION

The Company is a leading provider of ERP software for multinational and other large manufacturing companies. The Company's principal product, MFG/PRO software, is a modular software program designed specifically to address the plant-level needs of multinational manufacturers for flexible, inter-operable and rapidly deployable ERP software solutions. Additionally, the Company is currently focused on extending its presence in multi-site manufacturing by developing a line of supply chain management solutions designed to serve the needs of multinational manufacturing companies. The Company meets customer requirements in its vertical markets by delivering the following:

GLOBAL SOLUTIONS FOR MULTINATIONAL MANUFACTURERS. The Company focuses on the plant-level ERP and supply chain management requirements of global manufacturers. The Company's MFG/PRO software incorporates multi-currency capabilities, is available in 24 languages and is tailored to local financial practices and requirements in many of its major markets. The Company's customers have deployed MFG/PRO software in over 70 countries. In November 1995, the Gartner Group stated that in terms of being able to provide service and support around the globe, QAD has demonstrated the best performance of the leading companies in an open systems environment, particularly in the European market.

EXPERTISE AND FUNCTIONALITY FOR KEY VERTICAL MARKETS. The Company targets and has achieved leadership positions in the electronics/industrial, food/beverage, consumer packaged goods, medical and automotive industries. The Company believes that its substantial expertise in these markets, together with its strategy of developing software modules that address specific industry needs, provides the Company with a competitive advantage. For example, the Company's MFG/PRO software includes features which facilitate United States Food and Drug Administration ("FDA") compliance and validation for the medical industry, advanced pricing and promotion management for the consumer packaged goods industry, and customer/ supplier scheduling via electronic data interchange for the automotive industry.

GLOBAL SERVICE AND SUPPORT. The Company believes that a high level of global service and support is a critical component of its ERP solution for multinational manufacturers. The Company offers product service and support directly through its sales and support offices in 17 countries and indirectly through its global network of systems integration partners and distributors located in over 40 countries. The Company's systems integrator and distributor network also offers consultancy services for the implementation of its software solutions.

EASE OF IMPLEMENTATION. The modular product design of MFG/PRO software, together with the Company's focus and expertise in its key vertical markets, enables rapid product implementation, often within six months at a particular site. Product modules are designed to address the specific needs of customers in the Company's targeted markets, limiting the need for extensive customization upon implementation. In addition, customers are able to purchase only those modules with functionality appropriate for their needs, limiting time-consuming implementation and training for unneeded features.

OPEN, CLIENT/SERVER-BASED SOLUTIONS. The Company's products are based on an open, client/server computing architecture. The Company believes that this architecture enables superior flexibility and inter-operability and addresses the desire of customers to migrate critical business software to an open platform.

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MFG/PRO software operates in Windows NT and major UNIX environments on more than 25 hardware platforms and is compatible with Oracle and Progress databases.

THE QAD STRATEGY

The Company's objectives are to expand its leadership position in plant-level solutions and become a leading provider of supply chain management software solutions to multinational manufacturers. The key elements of the Company's strategy for achieving these objectives include the following:

MAINTAIN AND LEVERAGE LEADERSHIP IN PLANT-LEVEL MANUFACTURING. The Company believes its MFG/PRO software is the leading open systems ERP solution for plant-level deployments worldwide. As of April 30, 1997, the Company had licensed MFG/PRO software at approximately 3,200 sites to approximately 1,880 customers in over 70 countries. The Company's strategy is to continue to aggressively pursue plant-level opportunities in its targeted markets to enhance its leadership position. The Company believes that the success of its MFG/PRO software provides a strong existing customer base from which to license additional modules and additional users. In addition, the Company intends to leverage its installed base of MFG/PRO software customers in order to accelerate the adoption of On/Q software, the Company's new supply chain management solution.

FOCUS ON GLOBAL SUPPLY CHAIN MANAGEMENT SOLUTIONS. The Company believes that supply chain optimization represents one of the greatest current opportunities for companies to reduce costs and enhance customer relationships. The Company is developing a group of new applications, known as On/Q software, for this market. The initial product, Logistics, is being developed specifically to meet demand-side requirements of multinational manufacturing companies, including complex high-volume order processing, import/export management, multiple-route segmentation and logistics, distribution point optimization, lead and sales order management, contract management and liquidation. In addition, the Company intends to develop additional applications, including procurement and planning, and to provide seamless inter-operability with other industry leading supply chain management solutions for scheduling. The Company believes that these new products, coupled with its strength in plant-level ERP solutions and the Company's products' demonstrated ability to inter-operate with other corporate applications, positions the Company to succeed in the emerging supply chain management marketplace.

LEVERAGE ALLIANCES. The Company leverages the expertise of distribution, implementation and technology partners to meet the diverse needs of its customers. The Company augments its direct sales organization with a global network of over 40 distributors and numerous implementation providers. The Company plans to leverage its network of distributors and implementation providers to further penetrate its vertical markets. For implementation of its software, the Company relies almost exclusively on third-party providers, allowing the Company to maintain its focus on developing, marketing and distributing its software. In addition, the Company has entered into a number of joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with MFG/PRO software to deliver a more complete solution for its targeted vertical markets.

MAINTAIN TECHNOLOGY LEADERSHIP. The Company was one of the first providers of open, client/server-based ERP software and is committed to maintaining its technology leadership. The Company's technology strategy is focused on migrating its products to a component object architecture in order to enable customers to improve inter-operability with existing software applications and to deploy and integrate new "best of breed" software applications across the enterprise. The Company believes inter-operability will become an important requirement of software applications as organizations seek fully integrated ERP solutions. In addition, the Company believes this object architecture will enable it to provide enhanced functionality in its new On/Q software, which is currently under development.

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CAPITALIZE ON YEAR 2000 COMPLIANCE. Many companies are facing significant business problems due to the failure of their existing ERP systems to appropriately recognize years after 1999. The Company believes that this problem will accelerate the migration to open, client/server-based ERP solutions that are configured to handle this transition. The Company's products have been year 2000 capable since their inception. The Company believes that it is well positioned to leverage its MFG/PRO software and its On/Q software to be a part of customers' year 2000 solutions.

PRODUCTS

The Company targets its MFG/PRO software to manufacturing companies within the electronics/ industrial, food/beverage, consumer packaged goods, medical and automotive industries. In addition, the Company is developing On/Q software, a group of applications targeted to the supply chain management needs in these industry segments. The first of these applications, Logistics, is currently under development and is expected to be commercially available in the second half of 1998.

The Company's principal product, MFG/PRO software, provides multinational organizations with an integrated ERP solution that includes manufacturing, distribution, financial and service/support management applications within an open systems environment. MFG/PRO software is composed of an extensive set of modules designed to address the needs of customers in the Company's vertical markets. The Company's software supports multiple currencies and global tax management and is tailored to financial practices and requirements in many of its major geographic markets. MFG/PRO software supports 24 languages, including most European languages, Japanese, Chinese, Korean and Russian. MFG/PRO software operates in both host and distributed, client/server computing environments and supports single or multiple sites, as well as multiple production and operational processes. These capabilities enable multinational manufacturers to manage multiple hybrid production methods within a single organization or a single production site, and also provide the flexibility to adapt to additional sites and processes as an organization's business evolves. Licensing fees for the Company's MFG/PRO software generally range from \$50,000 to several million dollars, depending on the configuration of the software, the number of sites and the number of users. Annual maintenance fees for such software generally approximate 15% of the list price of the software.

The modular design of MFG/PRO software enables the Company's customers to select the modules necessary to meet their specific operational needs. For example, in the automotive industry, MFG/PRO software's Repetitive Manufacturing module, coupled with the Customer Schedules and Supplier Schedules modules, provides high-volume businesses with streamlined manufacturing capabilities. The Product Change Control module allows electronics/industrial companies to meet challenges presented by rapidly changing products and short product life-cycles through sophisticated engineering change management. In the industrial and consumer packaged goods industries, MFG/PRO software supports mixed-mode and discrete manufacturing with powerful planning and execution management modules. In the food/beverage industry, the Advanced Pricing Manager module tracks product promotion life cycles from concept through analysis. In the medical industry, MFG/PRO software has the tools to allow for accurate FDA compliance reporting and validation.

MFG/PRO software currently includes the following modules:

- Accounts Payable
- Accounts Receivable
- Advanced Pricing Manager
- Capacity Requirements Planning
- Cash Management
- Client/Server
- Compliance (for FDA)
- Configurator
- Configurator Product Modeler
- Configured Products
- Cost Management
- Customer Schedules
- Data Warehousing
- Decision Support
- Distribution Requirements Planning
- Electronic Data Interchange
- Enterprise Operations Planning
- Fixed Assets
- Forecasting
- Formula/Process
- General Ledger
- Inventory Control
- Master Scheduling
- Materials Requirements Planning
- Multiple Currency
- Physical Inventory
- Product Change Control
- Product Line Planning
- Product Structures
- Purchasing
- Quality Management
- Repetitive Manufacturing
- Resource Planning
- Results Files
- Routings/Work Centers
- Sales Analysis
- Sales Orders/Invoices
- Sales Quotations
- Service/Repair Orders
- Service/Support Management
- Shop Floor Control
- Supplier Schedules
- Validation (for FDA)
- Work Orders

The Company has a number of business alliances to enhance the functionality of MFG/PRO software. The Company has entered into a number of joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with MFG/PRO software to deliver more complete solutions for its targeted vertical markets.

To further enhance the rapid deployment and ease of use of MFG/PRO software, the Company introduced Qwizard software in March 1997. Qwizard software is a mentor for users of MFG/PRO software which provides self-paced interactive training. In addition, Qwizard software includes tools to design and customize the visual interface of MFG/PRO software to match the users' workflows and job responsibilities.

PRODUCTS UNDER DEVELOPMENT

The Company's planned suite of supply chain management solutions, On/Q software, is designed to inter-operate with MFG/PRO software and other ERP and supply chain software solutions. The initial On/Q software product under development, Logistics, is designed to allow for consolidation of orders, contract management, shipping and logistics management. The Company anticipates that Logistics will be commercially available in the second half of 1998. Logistics is specifically designed to meet demand-side requirements of global multinationals, including complex high-volume order processing, import/export management, multiple-route segmentation and logistics, distribution point optimization, lead and sales order management, contract management and liquidation. The Logistics application is targeted to address supply chain issues associated with global manufacturing operations, and is designed to allow orders to be taken from any customer, placed with any number of plants as capacity and product mix change, and filled from the most cost-efficient available distribution center, while consolidating or distributing invoices to any combination of sold-to-, ship-to- and bill-to-customers. Logistics is also designed to provide cost-efficient consolidation and to provide multi-lingual and multi-currency capabilities. The Company plans to follow Logistics with additional On/Q software products. There can be no assurance, however, that any of the Company's supply chain management solutions will be successfully developed in accordance with planned schedules or at all, or that if successfully developed, such software will achieve market acceptance. See "Risk Factors--Supply Chain Solutions Under Development and Underlying Technology."

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TECHNOLOGY

MFG/PRO software has been developed with a commercially available, fourth generation language and tool set marketed by Progress that addresses relational databases provided by Oracle and Progress. See "Risk Factors--Dependence on Progress Products." MFG/PRO software is being migrated to an object-oriented framework which the Company believes will enable customers to improve inter-operability with existing software applications and to deploy and integrate new "best of breed" software applications across the enterprise. The Company also believes object-orientation will enable the Company to provide enhanced functionality in its new On/Q software under development. While the Company's MFG/PRO software is dependent upon Progress technology, the Company's new On/Q software under development is not dependent on Progress technology. The Company is currently in the process of converting its MFG/PRO software modules to object-oriented technology where the Company believes such conversion will add value. The software operates in Windows NT and major UNIX environments on more than 25 hardware platforms. MFG/PRO software supports distributed and mirrored databases, local and wide area networks, character-based and graphical user interfaces.

The Company is also embracing object-oriented technology as a next generation technology to address the complex supply chain management requirements of companies and to improve business processes. The Company believes that new object-based functionality will play a key role in the competitive manufacturing, distribution, financial, planning and service/support

management strategies of customers in the Company's targeted industry segments. Object-oriented technology allows for the creation of systems which are scalable and flexible and which are capable of accommodating changes in business requirements and technology infrastructure.

The Company's deployment of object-oriented technology consists of three main elements: component objects; Convergent Engineering methodology; and an open interface server.

COMPONENT OBJECTS are simple building blocks of small, discrete pieces of functionality that can be configured to create complete applications and enable developers to rapidly create and modify systems to provide the desired set of functionality for specific vertical markets or individual customers. The Company has defined three types of component objects: business object frameworks; common business objects and application objects.

CONVERGENT ENGINEERING methodology is a new software design methodology employed by the Company to develop future products. Convergent Engineering methodology allows business requirements to be captured as a series of simple facts, actions and rules, enabling software to more flexibly accommodate current business practices and processes.

INTER/LINQ, the open interface server developed by the Company, uses commercially available messaging tools along with the Company's proprietary data mapping applications. This product is used to provide inter-operability with other software applications, even among multiple revision levels of the same or different products.

There can be no assurance that the Company will be successful in converting its MFG/PRO software to object-oriented technology or developing its new supply chain management software to incorporate object-oriented technology on a timely basis, if at all, or that if converted or developed such software will achieve necessary market acceptance. See "Risk Factors--Supply Chain Solutions Under Development and Underlying Technology."

RESEARCH AND DEVELOPMENT

The Company originally introduced its client/server-based MFG/PRO software in 1986 and has subsequently released a number of product enhancements. The Company's research and development staff, augmented by third-party development resources, is focused on continuing updates and enhancements to its MFG/PRO software, as well as the conversion of MFG/PRO software to object-oriented

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technology. The Company also maintains a separate advanced technology development organization to research longer term software solutions. This organization is specifically focused on developing the Company's On/Q software supply chain management solutions, the first of which will be Logistics. In April 1997, the Company also invested in a private company focused on developing the Convergent Engineering methodology to participate in research and development efforts of that company. The Company has an option to acquire an additional interest in such company, following which the Company would own a 33% equity interest. See "Use of Proceeds" and Note 11 to Notes to Consolidated Financial Statements.

The Company believes that Internet capability for its products will be important to the future success of its products. Accordingly, the Company is developing Web-enabled versions of its products through in-house and third-party development. The Company's Logistics product is also being designed to include Web enablement. There can be no assurance that the Company will be successful in developing any new products or enhancements, that the Company will not experience difficulties that could delay or prevent successful development, introduction or sales of these products or that its new products will adequately meet the requirements of the marketplace and achieve market acceptance.

Research and development expense increased significantly in recent years as

the Company has continued to focus on development of new and enhanced products. Research and development expense, which does not include costs of product support and customization, increased to \$25.6 million for the fiscal year ended January 31, 1997, from \$17.0 million and \$10.6 million for the fiscal years ended December 31, 1995 and 1994, respectively. Research and development expense for the quarter ended April 30, 1997 was \$6.2 million. At April 30, 1997 the Company had 164 personnel in its research and development department. See "Risk Factors--Rapid Technological Change," "--Supply Chain Solutions Under Development and Underlying Technology" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SALES AND MARKETING

The Company sells and supports its products through direct and indirect sales organizations throughout the world. The Company's direct sales organization consists of approximately 170 personnel located at its corporate headquarters in Carpinteria, California, its regional headquarters in Mt. Laurel, New Jersey, Hoofddorp, The Netherlands, Hong Kong, China and Sydney, Australia, and over 20 other direct sales offices worldwide. The Company's sales team is organized around its five targeted vertical markets, enabling the Company to address the specialized needs of its customers.

The Company's indirect sales channel consists of over 40 distributors worldwide. The Company does not grant exclusive rights to any of its distributors. The Company's distributors primarily sell independently to companies within their geographic territory but may also work in conjunction with the Company's direct sales organization. In addition, the Company leverages its relationships with implementation providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

The Company's sales and marketing strategy is to develop demand for its products by creating visibility for the Company and awareness of its principal product, MFG/PRO software. The Company participates in major computer and vertical market industry trade shows and sponsors regional and worldwide user conferences and regional alliance conferences. The Company also advertises in leading business and targeted industry publications.

The Company's future success will depend in part upon the productivity of its sales and marketing force and the ability of the Company to continue to attract, integrate, train, motivate and retain new sales and marketing personnel. Competition for sales and marketing personnel in the Company's industry is intense. There can be no assurance the Company will be successful in hiring such personnel in accordance with its plans. In addition, the failure by the Company to maintain successfully its distributor relationships or to establish new relationships in the future would have a material adverse effect on the Company's

business, results of operations and financial condition. See "Risk Factors--Dependence Upon Development and Maintenance of Sales and Marketing Channels."

THIRD-PARTY IMPLEMENTATION PROVIDERS

The Company has made the strategic decision to utilize almost exclusively third parties to provide implementation and customization services to the Company's customers. The Company has chosen this strategy to allow the Company to maintain its focus on developing, marketing and distributing its software and to enhance the effectiveness, expertise and commitment of third parties who provide services on behalf of the Company. The Company also uses these third parties for sales lead generation. Implementation and system integration services are provided by a network of consultants and system integrators, including Arthur Andersen & Co. LLP, Deloitte & Touche LLP, Ernst & Young LLP, Integrated Systems & Services, LLC and Strategic Information Group International, Inc. in the United States, BDM Largotim US, Inc., CSBI S.A., Origin Technology in Business Nederland B.V. and Sligos S.A. in Europe and Iris

Ifec Co., Ltd and STCS Systems Pte Ltd in Asia. In most cases, the Company's distributors also deliver consulting and integration services. All third-party providers are required to be certified in the applications and methodologies of the Company's products.

The Company typically enters into separate agreements with each of its installation and implementation partners that provide such partners with the non-exclusive right to promote and market the Company's products, and to provide training, installation, implementation and other services for the Company's products, within a defined territory for a specified period of time (generally two years). Although the Company's installation and implementation partners do not receive fees for the sale of the Company's software products, they generally are permitted to set their own rates for such services and the Company typically does not collect a royalty or percentage fee from such partners on services performed. The Company also enters into similar agreements with its distributor partners that grant such partners the non-exclusive right, within a specified territory, to market, license, deliver and support the Company's products. In exchange for such distributors' services, the Company receives a negotiated royalty fee for the license of its software products. The Company also relies on third parties for the development or inter-operation of key components of its software so that users of the Company's software will obtain the functionality demanded. Such research and product alliances include software developed to be sold in conjunction with the Company's software products, technology developed to be included in or encapsulated within the Company's software products and numerous third-party software programs that generally are not sold with the Company's software but inter-operate directly with the Company's software through application program interfaces. The Company generally enters into joint development agreements with its third-party software development partners that govern ownership of the technology collectively developed. Each of the Company's partner agreements and third-party development agreements contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and the Company's third-party development agreements contain restrictions on the use of the Company's technology outside of the development process. The failure of the Company to establish or maintain successful relationships with such third-party software providers or such third-party installation, implementation and development partners or to failure of such third-party software providers to develop and support their software could have a material adverse effect on the Company's business, operating results and financial condition. See "Risk Factors--Reliance on and Need to Develop Additional Relationships with Third Parties."

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CUSTOMERS

The Company targets the industrial/electronics, food/beverage, consumer packaged goods, medical and automotive sectors worldwide. As of April 30, 1997, the Company had licensed MFG/PRO software at approximately 3,200 sites to approximately 1,880 customers in over 70 countries. No one customer accounted for more than 10% of total revenue during any of the Company's last three fiscal years or during the quarter ended April 30, 1997. The following are among companies and/or subsidiaries of such companies in each of the Company's target vertical markets that have each generated more than \$400,000 in software license and maintenance revenue over the last three fiscal years:

ELECTRONICS/INDUSTRIAL

ABB Flakt Oy

Alcatel Services

International B.V.

Allen-Bradley Co. Inc. Aluminum Company of America

AT&T

Courtaulds plc

Ingersoll-Rand Company

Lucent Technologies Inc.

Matsushita Electric-Industrial

Co., Ltd
NEC America, Inc.
Newbridge Networks
Corporation
Philips International B.V.
RayChem Corporation
Schlumberger Technology Corp.
Silicon Graphics SA
Sun Microsystems, Inc.
Xerox Corporation
FOOD/BEVERAGE
AEP Borden Nederland B.V.
Cargill, Incorporated
Kraft Jacobs Suchard AG
Pepsi-Cola Company
Presto Foods Products
The Quaker Oats Company
Rich Products Corporation
CONSUMER PACKAGED GOODS
The Black & Decker
Corporation
Colgate-Palmolive Company
Gillette Company
Johnson & Johnson
Unilever N.V.
AUTOMOTIVE
Aeroquip-Vickers, Inc.
Daewoo Information
Systems Co. Ltd.
Ford Motor Corporation
Johnson Controls, Inc.
Lear Seating Corporation
R.J. Tower Corporation
Rockwell Automotive
United Technologies Automotive
Varity Kelsey-Hayes Company

MEDICAL

Alza Corporation
BOC Ohmeda Inc.
Physio-Control Corporation
Rexall Sundown, Inc.
St. Jude Medical, Inc.
Sunrise Medical Inc.
Ventritex, Inc.

CUSTOMER SERVICE AND SUPPORT

The Company believes that providing a high level of customer service and support is essential to customer satisfaction and the Company's long-term success. The Company's service and support organization is based primarily in centers located in Mt. Laurel, New Jersey, Hoofddorp, The Netherlands, Hong Kong, China and Sydney, Australia. Global support is also provided through the Company's extensive network of alliance partners. This global presence helps the Company support customers and partners in different regions and time zones worldwide.

The Company also provides its customers with access to information and customer support services via the World Wide Web. The Company's Internet-enabled services facilitate the exchange of information seven days per week, 24 hours a day and provide customers with access to QAD support databases. These databases contain a wide variety of product information, customer support functionality, answers to frequently asked questions, and a search-enabled online knowledge base. In addition, ongoing training of support personnel, internal and external consultants and the Company's alliance partners helps to ensure that customers

are up to date on the latest technologies and product enhancements offered by the Company.

The Company offers, for a fee, a comprehensive education and training program to its customers' information and technology staff and end-users, as well as its implementation providers. Classes are

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offered through in-house facilities at Company offices in various locations, as well as on-site training services at customer locations. The Company has also assisted implementation providers and customers in developing their own in-house support centers.

COMPETITION

The ERP software market is highly competitive, rapidly changing and affected by new product introductions and other market activities of industry participants. The Company competes in the ERP software market primarily on the basis of functionality, ease of use and implementation, technology, time to benefit, supplier viability, service and cost. The Company currently competes primarily with (i) other vendors of software focused on the specific needs of manufacturing plants and distribution sites of multinational manufacturing companies, which include Baan, J.D. Edwards and SSA, (ii) smaller independent companies that have developed or are attempting to develop advanced planning and scheduling software which complement or compete with ERP or manufacturing resource planning solutions, (iii) internal development efforts by corporate information technology departments and (iv) companies offering standardized or customized products on mainframe and/or mid-range computer systems. The Company expects that competition for its MFG/PRO software will increase as other large companies such as Oracle and SAP, as well as other business application software vendors, enter the market for plant-level ERP solutions. With the Company's strategic entry into the supply chain management software market, the Company can expect to meet substantial additional competition from companies presently serving that market, such as i2, IMI and Manugistics, as well as from broad based solution providers such as Baan, Oracle, PeopleSoft and SAP that the Company believes are increasingly focusing on this segment. In addition, certain competitors, such as Baan, Oracle, PeopleSoft and SAP, have well established relationships with present or potential customers of the Company. The Company may also face market resistance from the large installed base of legacy systems because of the reluctance of these potential customers to commit the time, effort and resources necessary to convert to an open, client/server-based software solution. Further, as the client/server market continues to develop, companies with significantly greater resources than the Company may attempt to increase their presence in these markets by acquiring or forming strategic alliances with competitors of the Company. Increased competition is likely to result in price reductions, reduced operating margins and loss of market share, any one of which could materially adversely affect the Company's business, results of operations and financial condition. Many of the Company's present or future competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than can the Company. There can be no assurance that the Company will be able to compete successfully with existing or new competitors or that competition will not have a material adverse effect on the Company's business, operating results and financial condition.

PROPRIETARY RIGHTS AND LICENSING

The Company's success is dependent upon its proprietary technology and other intellectual property. The Company relies primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect its rights in its software. The Company enters into

license agreements with each of its customers. Each of the Company's license agreements provides for the non-exclusive license of the Company's MFG/PRO software. Such licenses generally are perpetual (unless terminated by either party upon 30 days written notice) and contain strict confidentiality and non-disclosure provisions, a limited warranty covering MFG/PRO software and indemnification for the customer from any infringement action related to MFG/PRO software. The pricing policy under each license is based on a standard price list and may vary based on the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and level of ongoing support, training and services to be

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provided by the Company. Payment terms are generally 30 days from the date of shipment. The Company has no patents or pending patent applications. In order to facilitate the customization required by most of the Company's customers, the Company generally licenses its MFG/PRO software to end users in both object code (machine-readable) and source code (human-readable) format. While this practice facilitates customization, making software available in source code also makes it easier for third parties to copy or modify the Company's software for non-permitted purposes. One of the Company's distributors has developed modifications to the Company's software which it owns jointly with the Company. The Company has entered into a reciprocal license with this distributor who markets the product enhancements in conjunction with MFG/PRO software. This or other distributors or other persons may continue to independently develop a modified version of the Company's software. The Company seeks to protect its software, documentation and other written materials under the legal provisions relating to trade secret, copyright and contract law. The Company's license agreements generally allow the use of MFG/PRO software solely by the customer for internal purposes without the right to sublicense or transfer the MFG/PRO software to third parties. The Company believes that the foregoing measures afford only limited protection. Despite the Company's efforts, it may be possible for third parties to copy certain portions of the Company's products or reverse engineer or obtain and use information that the Company regards as proprietary. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurance that the Company will be able to protect its proprietary software against unauthorized third-party copying or use, which could adversely affect the Company's competitive position. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exist, software piracy can be expected to be a problem. Furthermore, there can be no assurance that the Company's competitors will not independently develop technology similar to that of the Company.

The Company has in the past been subject to claims of intellectual property infringement and may increasingly be subject to such claims as the number of products and competitors in the Company's targeted vertical markets grows and the functionality of products in other industry segments overlaps. Although the Company is not aware that any of its products infringes upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by the Company with respect to current or future products. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company, or at all, which could have a material adverse effect upon the Company's business, operating results and financial condition. The Company may also initiate claims or litigation against third parties for infringement of the Company's proprietary rights or to establish the validity of the Company's proprietary rights. Litigation to determine the validity of any claims could result in significant expense to the Company and divert the efforts of the Company's technical and management personnel from productive tasks, whether or not such litigation were determined in favor of the Company.

The Company has in the past and may in the future resell certain software

which it licenses from third parties. In addition, the Company has in the past and may in the future jointly develop software in which the Company will have co-ownership or cross-licensing rights. There can be no assurance that these third-party software arrangements and licenses will continue to be available to the Company on terms that provide the Company with the third-party software it requires to provide adequate functionality in its products, on terms that adequately protect the Company's proprietary rights or on terms that are commercially favorable to the Company. The loss of or inability to maintain or obtain any of these software licenses, including a loss as a result of a third-party infringement claim, could result in delays or reductions in product shipments until equivalent software, if any, could be identified, licensed and integrated, which could materially and adversely affect the Company's business, operating results and financial condition. See "--Products" and "--Research and Development."

EMPLOYEES

As of April 30, 1997, the Company had 700 full-time employees of which 164 were in research and development, 128 were in customer and product support, 220 were in sales and marketing, and 188 were in general and administration and other. In addition, the Company contracted with approximately 100 temporary employees. None of the Company's workers is represented by collective bargaining agreements with the exception of certain of the employees of the Company's Netherlands subsidiary who are represented by statutory Works Councils as required under the laws of The Netherlands. The Company believes that its employee relations are good. The Company's success depends to a significant extent upon a limited number of key employees and other members of senior management of the Company. There can be no assurance that the Company will be successful in attracting and retaining such personnel, and the failure to attract and retain such personnel could have a material adverse effect on the Company's business. See "Risk Factors--Dependence Upon Key Personnel; Need to Hire Additional Personnel in All Areas."

PROPERTIES

The Company leases facilities to support its operations in several locations throughout the world. The corporate headquarters are located in Carpinteria, California in approximately 95,000 square feet of leased space in two facilities subject to five leases. The leases expire on dates ranging from December 1997 to December 2001. The Company owns approximately 28 acres and 54,000 square feet of office space in a neighboring location which also supports portions of its operations. The Company also owns a 34-acre parcel located in Carpinteria, California at which it is considering developing additional facilities. Regional headquarters are located in Mount Laurel, New Jersey, Hoofddorp, The Netherlands, Hong Kong, China and Sydney, Australia in space covering approximately 57,000, 16,000, 4,500 and 13,000 square feet and subject to leases expiring in 2001, 2000, 1998 and 2000, respectively. Satellite offices are located in the Americas, Europe, Asia and Australia in space covering approximately 35,000, 15,000, 12,000 and 7,400 square feet and subject to leases expiring in 2000, 2000, 1999 and 1998, respectively. All of the Company's leases have been negotiated with independent third parties on an arms length basis, and the Company believes they are on commercially reasonable terms. Total rent expense for the year ended January 31, 1997 was \$5.9 million. The global presence of the Company is supported by offices located in the United States, Canada, Mexico, Brazil, The Netherlands, United Kingdom, France, Germany, Sweden, Italy, Poland, Australia, Singapore, Japan, Korea, India and China (Hong Kong and Shanghai). Although the Company has from time to time sought and will in the future seek new or expanded facilities for existing or additional regional offices, the Company expects that its current domestic and international facilities will be sufficient to meet its needs for at least the next 12 months. See Notes 2 and 8 of Notes to Consolidated Financial Statements.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information concerning the directors, executive officers and other key employees of the Company as of April 30, 1997.

NAME	AGE	POSITION(S)

DIRECTORS AND EXECUTIVE OFFICERS		
Pamela M. Lopker.....	42	Chairman of the Board and President
Karl F. Lopker.....	46	Director, Chief Executive Officer and Secretary
Evan M. Bishop.....	42	Director
Margaret A. Biddison.....	48	Vice President, Global Marketing
Vince P. Niedzielski.....	44	Vice President, Development
Dennis R. Raney.....	54	Senior Vice President, Finance and Administration and Chief Financial Officer
KEY EMPLOYEES		
John M. Doordan.....	49	Vice President, Sales--Business Development
Charles R. Eggerding.....	41	Vice President, Sales--Automotive
William F. McMenamin.....	43	Vice President, Sales--Electronics/Industrial
Johannes G. Spruit.....	50	Vice President, Sales--Alliances
Gregory M. Turner.....	45	Vice President, Sales--Consumer Products

PAMELA M. LOPKER founded the Company in 1979 and has been its Chairman of the Board and President since inception. Prior to founding the Company, Ms. Lopker served as Senior Systems Analyst for Comtek Research from 1977 to 1979. Ms. Lopker is certified in Production and Inventory Management by the American Production and Inventory Control Society. Ms. Lopker earned a Bachelor of Arts degree in Mathematics from the University of California at Santa Barbara.

KARL F. LOPKER has served as Director, Chief Executive Officer and Secretary since joining the Company in 1981. Mr. Lopker was founder and President of Deckers Outdoor Corporation from 1973 to 1981, where he currently serves as a Director. Mr. Lopker is certified in Production and Inventory Management at the Fellow level by the American Production and Inventory Control Society. Mr. Lopker studied Electrical Engineering and Computer Science at the University of California at Santa Barbara. Mr. Lopker and Pamela Lopker are married.

EVAN M. BISHOP has served the Company as a Director since joining QAD in 1981. Mr. Bishop currently also holds the position of Functional Architect/Manufacturing. Mr. Bishop is certified in Production and Inventory Management by the American Production and Inventory Control Society. Mr. Bishop holds a Bachelor of Science degree in Mathematics and Economics from the University of California at Santa Barbara.

MARGARET A. BIDDISON has served as Vice President, Global Marketing since joining the Company in 1994. Prior to joining the Company, Ms. Biddison served from 1993 to 1994 as Vice President, Professional Services at Fourth Shift Corporation and, from 1983 to 1993, served in numerous capacities for Western Data Systems. Ms. Biddison holds a Bachelor of Arts degree in Anthropology from the University of California at Santa Cruz.

VINCE P. NIEDZIELSKI has served as Vice President, Development since joining the Company in April 1996. Prior to joining the Company, Mr. Niedzielski served as Vice President, Production and

Development at Candle Corporation from 1984 to 1996. Mr. Niedzielski holds a Bachelor of Science degree in Mathematics from the University of Scranton.

DENNIS R. RANEY joined the Company in February 1997 as Senior Vice President, Finance and Administration and Chief Financial Officer. Prior to joining the Company, Mr. Raney served as the Chief Financial Officer of California Microwave, Inc. from 1996 to 1997, and from 1995 to 1996, Mr. Raney served as Chief Financial Officer of General Magic, Inc. Prior to joining General Magic, Inc., Mr. Raney served as Chief Financial Officer of Bristol Meyers Squibb's pharmaceutical division from 1993 to 1995. Mr. Raney also held various positions with Hewlett-Packard Company from 1970 to 1993. Mr. Raney holds a Masters of Business Administration from the University of Chicago and a Bachelor of Science degree in Chemical Engineering from the South Dakota School of Mines and Technology.

JOHN M. DOORDAN was appointed Vice President, Sales--Business Development in 1996. Since joining the Company in 1986, Mr. Doordan has held various executive sales and management positions in the Company including Asia-Pacific Regional Manager and Emerging Markets Manager as well as continuous responsibility for multinational sales management. Mr. Doordan is certified in Production and Inventory Management by the American Production and Inventory Control Society. Mr. Doordan earned a Bachelor of Science degree in Industrial Management from the Massachusetts Institute of Technology, Sloan School of Management.

CHARLES R. EGGERDING was appointed Vice President, Sales--Automotive in 1995. Since joining the Company in 1991, Mr. Eggerding has held various sales and marketing positions. Since 1994, Mr. Eggerding has been responsible for the global Automotive group. Mr. Eggerding is certified in Production and Inventory Management by the American Production and Inventory Control Society. Mr. Eggerding holds a Bachelor of Arts degree in Business/Political Science from University of Michigan.

WILLIAM F. MCMENAMIN has served as Vice President, Sales--Electronics/Industrial since joining the Company in January 1997. Prior to that time, Mr. McMenamin worked as an independent consultant from 1996 to 1997. From 1995 to 1996, Mr. McMenamin served as Senior Vice President, Field Operations at Programart Corporation and, from 1994 to 1995, he founded and served as President and CEO of Qualix Pty. Ltd. From 1989 to 1994, Mr. McMenamin served as Vice President, Sales and Operations--Americas and Asia Pacific Region for Candle Corporation.

JOHANNES G. SPRUIT was appointed Vice President, Sales--Alliances in 1996. Since joining the Company in 1990, Mr. Spruit has held various executive sales and management positions in the Company, including Global Distributor Manager and European Regional Manager.

GREGORY M. TURNER was appointed Vice President, Sales--Consumer Products in 1996. Since joining the Company in 1990, Mr. Turner has held various sales and marketing responsibilities in business development of the Asia/Pacific region. Mr. Turner holds a Bachelor of Science degree in Engineering from Sydney University of Technology.

BOARD OF DIRECTORS

The Board of Directors is currently composed of three members. Within 90 days of the completion of the Offering, the Company anticipates expanding the Board of Directors to five members and appointing two outside directors who will serve on the Compensation Committee and the Audit Committee. Prior to the Offering, the Company has not had a Compensation Committee or an Audit Committee. Currently, each director holds office until the next annual meeting of the stockholders or until his or her successor is duly elected and qualified. Commencing with the first annual meeting of stockholders at which QAD has at least 800 stockholders, the Company's Certificate of Incorporation provides that the Board of Directors will be divided into three classes, with each class serving staggered, three-year terms.

Prior to the Offering, directors of the Company have not received compensation for their services in such capacity. The Company anticipates that, following the Offering, directors who are employees of the

Company will not be paid any fees or additional compensation (other than expense reimbursement) for service as members of the Board of Directors or any committee thereof. The Company will enter into arrangements with respect to fees and other compensation (including expense reimbursement) for directors who are not employees of the Company at the time they are selected to serve on the Board. In addition, directors who are not employees of the Company may annually receive automatic grants of non-qualified stock options under the Company's 1997 Stock Incentive Program. See "--Employee Compensation Programs--1997 Stock Incentive Program." The Company maintains directors' and officers' liability insurance and its Bylaws provide for indemnification of directors and officers to the fullest extent permitted by Delaware law. The Company has entered into indemnification agreements with all of its directors. In addition, the Certificate of Incorporation limits the personal liability of directors of the Company to the Company or its stockholders for breaches of the directors' fiduciary duties to the fullest extent currently permitted by Delaware law. See "Description of Capital Stock--Certain Anti-Takeover, Limited Liability and Indemnification Provisions."

COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended January 31, 1997, the Company had no compensation committee or other committee of the Board of Directors performing similar functions. Decisions concerning compensation of executive officers were made during such year by the Board of Directors. No interlocking relationship exists between the Company's Board of Directors and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the compensation earned by the Company's Chief Executive Officer and each of the other most highly compensated executive officers of the Company (collectively, the "Named Officers") whose aggregate cash compensation exceeded \$100,000 for services rendered in all capacities to the Company during the fiscal year ended January 31, 1997.

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION (1)		LONG-TERM COMPENSATION
	SALARY (\$)	BONUS (\$)	RESTRICTED STOCK AWARD (\$)
Pamela M. Lopker, Chairman of the Board and President.....	\$ 170,236	\$ 83,902	\$ --
Karl F. Lopker, Chief Executive Officer.....	166,561	127,143	--
Margaret A. Biddison, Vice President, Global Marketing.....	136,660	31,116	952,500 (2)
Vince P. Niedzielski, Vice President, Development.....	205,857	--	190,500 (2)

(1) No executive officer named in the table above received perquisites or other personal benefits, securities or property in an amount in excess of the lesser of \$50,000 or 10% of such officer's cash compensation, nor did all Named Officers together receive such other compensation in excess of the lesser of \$50,000 times the number of such Named Officers or 10% of such officers' aggregate cash compensation.

(2) The restricted stock granted to Ms. Biddison and Mr. Niedzielski vests ratably over a five-year period, with the first shares vesting in January 1998.

No stock appreciation rights or stock options were granted to any of the Named Officers during the fiscal year ended January 31, 1997. No such rights or options were held by the Named Officers at January 31, 1997.

EMPLOYEE COMPENSATION PROGRAMS

1994 STOCK PLAN

In 1993, the Board of Directors adopted and the stockholders approved the 1994 Stock Ownership Program (the "1994 Stock Plan"). The 1994 Stock Plan is composed of two stock plans: the 1994 Stock Purchase Plan and the 1994 Stock Award Plan. The Company authorized and reserved for issuance an aggregate of 4,800,000 shares of its Common Stock under the 1994 Stock Plan.

Employees of the Company are entitled to purchase stock under the 1994 Stock Plan on a quarterly basis, either through payroll deductions designated by the employee for a fiscal quarter or by the submission of a request to the Company under the 1994 Stock Plan. In addition, employees were awarded stock, from time to time, under the 1994 Stock Plan as part of the incentive portion of their yearly compensation. All such awards were subject to ratification by the Board of Directors. Under the 1994 Stock Plan, the Company also permitted shareholders to sell shares of Common Stock to the Company on any of four predetermined trade dates each year, at prevailing fair market values determined by an independent appraisal.

As of April 30, 1997, 2,385,230 shares of the Company's outstanding Common Stock had been issued under the 1994 Stock Plan. The 1994 Stock Plan will terminate upon consummation of the Offering. See Note 10 to Notes to Consolidated Financial Statements.

1997 STOCK INCENTIVE PROGRAM

In May 1997, the Board of Directors adopted and the stockholders approved the QAD Inc. 1997 Stock Incentive Program (the "1997 Stock Program"), effective upon consummation of the Offering. Under the 1997 Stock Program, the Board of Directors, or its designated administrators, has the flexibility to determine the type and amount of awards to be granted to eligible participants.

PURPOSE, STRUCTURE, AWARDS AND ELIGIBILITY. The 1997 Stock Program is intended to secure for the Company and its stockholders the benefits arising from ownership of the Company's Common Stock by individuals employed or retained by the Company who will be responsible for the future growth of the enterprise. The 1997 Stock Program is designed to help attract and retain superior personnel for positions of substantial responsibility with the Company (including advisory relationships where appropriate), and to provide individuals with an additional incentive to contribute to the Company's success.

The 1997 Stock Program is composed of seven parts and the Program Administrators (as defined below) may make the following types of grants under the 1997 Stock Program, each of which will be an "Award": (i) Incentive Stock Options ("ISOs") under the Incentive Stock Option Plan (the "Incentive Stock Plan"); (ii) Nonqualified Stock Options ("NSOs") under the Nonqualified Stock Option Plan (the "Nonqualified Plan"); (iii) Restricted Shares ("Restricted Shares") under the Restricted Shares Plan (the "Restricted Plan"); (iv) rights to purchase stock under the Employee Stock Purchase Plan (the "Purchase Plan"); (v) Stock Appreciation Rights ("SARs") under the Stock Appreciation Rights Plan (the "SAR Plan"); (vi) grants of options under the Non-Employee Director Stock Option Plan (the "Directors Plan"); and (vii) Other Stock Rights under the Stock Rights Plan (the "Stock Rights Plan") which may include the issuance of units representing the equivalent of shares of Common Stock ("Performance Shares"), payments of compensation in the form of shares of Common Stock ("Stock Payments") and rights to receive cash or shares of Common Stock based on the value of dividends paid with respect to a share of Common Stock ("Dividend Equivalent Rights"). Officers, key employees, employee directors, consultants and other independent contractors or agents of the Company or its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company's business will be eligible for selection by the Program Administrators to participate in the 1997 Stock Program, provided, however, that ISOs may be granted under the Incentive Stock Plan only to a person who is an

employee of the Company or its subsidiaries.

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SHARES SUBJECT TO 1997 STOCK PROGRAM. The Company authorized and reserved for issuance an aggregate of 4,000,000 shares of its Common Stock under the 1997 Stock Program. The aggregate number of shares of Common Stock which may be granted through Awards under the 1997 Stock Program, other than Stock Payments and the purchase of stock under the Purchase Plan, to any employee in any calendar year may not exceed 400,000 shares. The shares of Common Stock issuable under the 1997 Stock Program may be authorized but unissued shares, shares issued and reacquired by the Company or shares purchased by the Company on the open market. If any of the Awards granted under the 1997 Stock Program expire, terminate or are forfeited for any reason before they have been exercised, vested or issued in full, the unused shares subject to those expired, terminated or forfeited Awards will again be available for purposes of the 1997 Stock Program.

EFFECTIVE DATE AND DURATION. The Nonqualified Plan, the Restricted Plan, SAR Plan the Directors Plan and the Stock Rights Plan, became effective upon their adoption by the Board of Directors of the Company, subject to consummation of the Offering. The Incentive Stock Plan and the Purchase Plan became effective upon their adoption by the Board of Directors of the Company and approval of the 1997 Stock Program by a majority of the stockholders of the Company, subject to consummation of the Offering. The 1997 Stock Program will continue in effect until May 2007 unless sooner terminated under the general provisions of the 1997 Stock Program.

ADMINISTRATION. The 1997 Stock Program will be administered by the Board of Directors or by a committee appointed by the Board, consisting of not less than two directors of the Company who are "non-employee directors" (within the meaning of SEC Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended), so long as non-employee director administration is required under Rule 16b-3, and who are "outside directors" (as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code")), so long as outside directors are required by the Code. Subject to the foregoing limitations, as applicable, the Board of Directors may from time to time remove members from the committee, fill all vacancies on the committee, however caused, and may select one of the members of the committee as its chairman. The members of the Board of Directors or committee, when acting to administer the 1997 Stock Program, are referred to as the "Program Administrators." The Program Administrators may hold meetings at such times and places as they may determine, will keep minutes of their meetings, and may adopt, amend and revoke rules and procedures in accordance with the terms of the 1997 Stock Program.

STOCK OPTION GRANTS

The Company has also from time to time granted stock options to employees of the Company. At April 30, 1997, the Company had stock options outstanding with respect to 1,061,000 shares of Common Stock with exercise prices ranging from \$0.12 to \$13.00 per share and with a weighted average exercise price of \$2.73 per share. Such options generally vest over a five-year period.

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CERTAIN TRANSACTIONS

In February 1997, the Company loaned \$100,000 to Dennis R. Raney in connection with his employment by the Company. The principal of the loan accrues interest at an annual rate of 6.38% and principal and interest are payable in annual installments of \$37,674 commencing in February 1998, with all unpaid principal and interest due in February 2000. One-third of the loan will be forgiven on each of the first, second and third anniversaries of the date of Mr. Raney's initial employment with the Company. Such forgiveness schedule is subject to Mr. Raney's continued employment with the Company. In connection with his employment, the Company also awarded Mr. Raney 10,000 restricted shares,

granted Mr. Raney options exercisable for 100,000 shares of Common Stock at an exercise price of \$9.53 and agreed to a severance arrangement pursuant to which Mr. Raney is entitled to receive approximately six months salary upon involuntary termination without cause.

In 1994, the Company awarded 8,600 restricted shares to Margaret A. Biddison under the 1994 Stock Plan. Such award had a value of \$17,931 at the time of grant. Under the 1994 Stock Plan, Ms. Biddison and Vince P. Niedzielski also received restricted stock awards of 50,000 and 8,000 shares, respectively, during the year ended January 31, 1997. See "Management--Executive Compensation."

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of the Company's Common Stock as of April 30, 1997 and as adjusted to reflect the sale of Common Stock offered hereby, by (i) each person who is known by the Company to own beneficially five percent or more of the Company's Common Stock prior to the Offering, (ii) each of the Company's directors and Named Officers and (iii) all current directors and executive officers as a group.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED (1)	PERCENTAGE PRIOR TO THE OFFERING	PERCENTAGE AFTER THE OFFERING (1) (2)
Pamela M. Lopker(3).....	19,000,000	84.4%	67.2%
Karl F. Lopker(3).....	19,000,000	84.4	67.2
Evan M. Bishop.....	816,000	3.6	2.9
Margaret A. Biddison.....	128,246	*	*
Vince P. Niedzielski.....	18,600	*	*
All directors and executive officers as a group (6 persons).....	19,972,846	88.7	70.6

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or become exercisable within 60 days following April 30, 1997 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to the shares set forth opposite such stockholder's name.

(2) Assumes no exercise of the U.S. Underwriters' and the Managers' over-allotment option.

(3) All shares are held jointly by Pamela and Karl Lopker, except that 1,360,184 shares are held in trust for the Lopkers' minor children and 56,000 shares are held by The Lopker Family Foundation (the "Foundation"). Pamela and Karl Lopker act as joint trustees of the trust and officers of the Foundation.

DESCRIPTION OF CAPITAL STOCK

Upon completion of the Offering, the authorized capital stock of the Company will consist of 150,000,000 shares of Common Stock, par value \$.001 per share, and 5,000,000 shares of Preferred Stock, par value \$.001 per share. As of April 30, 1997, there were 22,524,230 shares of Common Stock outstanding held by 390 stockholders, there were four shares of Class B Common Stock outstanding held by

two stockholders (which shares will automatically convert into Common Stock upon completion of the Offering) and no shares of Preferred Stock were outstanding.

COMMON STOCK

The holders of Common Stock are entitled to one vote per share for the election of directors and on all other matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive, when and if declared by the Board of Directors, out of funds legally available therefor, any dividends on a pro rata basis. In the event of liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of Preferred Stock, if any, then outstanding. The Common Stock has no pre-emptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock offered by the Company in the Offering will, when issued, be fully paid and non-assessable.

PREFERRED STOCK

The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares of stock constituting any series or the designation of such series, without further vote or action by the Company's stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company and may adversely affect the voting and other rights of the holders of Common Stock. See "Certain Anti-Takeover, Limited Liability and Indemnification Provisions." At present, the Company has no plan to issue any shares of Preferred Stock.

CERTAIN ANTI-TAKEOVER, LIMITED LIABILITY AND INDEMNIFICATION PROVISIONS

The Company's Certificate of Incorporation and Bylaws include provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or an unsolicited acquisition proposal that a stockholder might consider favorable, including, but not limited to, a proposal that might result in the payment of a premium over the market price for the stock held by stockholders. These provisions are summarized in the following paragraphs.

CLASSIFIED BOARD OF DIRECTORS. The Certificate of Incorporation and Bylaws of the Company provide that the Board of Directors shall be classified into three classes, with each class serving staggered three-year terms upon the first annual meeting of stockholders at which the Company has at least 800 stockholders, as determined under Section 2115 of the California Corporations Code. The classification of the Board of Directors has the effect of generally requiring at least two annual stockholder meetings, instead of one, to replace a majority of the members of the Board of Directors.

SUPERMAJORITY VOTING. The Certificate of Incorporation requires the approval of the holders of at least 66 2/3% of the voting power of the then outstanding capital stock, voting together as a single class, to effect certain amendments to the Certificate of Incorporation, unless such amendments are approved by a majority of the directors of the Company not affiliated or associated with any person, other than Pamela or Karl Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power

of the Company's then outstanding capital stock, voting together as a single class. The Bylaws may be amended by either (a) a majority of the Board of Directors or (b) the holders of a majority of the Company's voting stock, provided that certain amendments approved by stockholders require the approval of at least 66 2/3% of the voting power of the Company's then outstanding

capital stock, voting together as a single class, unless such amendments are approved by a majority of the directors of the Company not affiliated or associated with any person, other than Pamela or Karl Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power of the Company's then outstanding capital stock, voting as a single class.

SPECIAL MEETINGS OF STOCKHOLDERS. The Bylaws provide that special meetings of stockholders of the Company may be called only by the Secretary of the Company at the request of a majority of the Board of Directors, or by the Company's Chairman of the Board, President or Chief Executive Officer.

NOTICE PROCEDURES. The Bylaws of the Company establish advance notice procedures with regard to all stockholder proposals, including proposals relating to the nomination of candidates for election as directors, the removal of directors and amendments to the Certificate of Incorporation or Bylaws, to be brought before meetings of stockholders of the Company. These procedures provide that notice of such stockholder proposals must be timely given in writing to the Secretary of the Company prior to the meeting. Generally, to be timely, the notice must be received by the Secretary of the Company not less than 90 days prior to the meeting and must contain certain other information as specified in the Bylaws.

LIMITATION OF DIRECTOR LIABILITY. The Certificate of Incorporation limits the personal liability of directors of the Company (in their capacity as directors but not in their capacity as officers) to the Company or its stockholders to the fullest extent currently permitted by Delaware law. Specifically, directors of the Company will not be personally liable for monetary damages for breach of a director's fiduciary duty, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law (the "DGCL"), which relates to unlawful payments of dividends or unlawful stock repurchases or redemptions or (iv) for any transaction from which the director derived an improper personal benefit.

INDEMNIFICATION AGREEMENTS. The Bylaws of the Company provide that the directors, executive officers, employees and agents of the Company may be indemnified against expenses (including attorneys' fees, judgments, fines and settlements) and other amounts actually and reasonably incurred in connection with any proceeding arising out of their status as such, to the fullest extent permitted by the DGCL. Prior to consummation of the Offering, the Company will enter into indemnification agreements with each of its directors and executive officers that will provide for indemnification and expense advancement to the fullest extent permitted under the DGCL.

SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

The Company is subject to Section 203 of the DGCL ("Section 203") which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) prior to such time, the Board of Directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested holder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least a 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) at or subsequent to such date, the business combination is approved by the Board of Directors and authorized at

an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is

not owned by the interested stockholder.

Section 203 defines business combination to include: (i) any merger or consolidation involving the corporation and the interested stockholder, (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder, (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder, (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series, or securities convertible into the stock of any class or series, of the corporation beneficially owned by the interested stockholder or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits by or through the corporation. In general, Section 203 defines an interested stockholder as an entity or person owning 15% or more of the outstanding voting stock of the corporation or any affiliate or associate of the corporation who was the owner of 15% or more of the outstanding voting stock of the corporation at any time within the three-year period immediately prior to the time in which it is sought to be determined whether such person is an interested stockholder.

LISTING

The Common Stock has been approved for listing on the Nasdaq National Market under the symbol "QADI."

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is Firststar Bank of Minnesota N.A.

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SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of the Offering, the Company will have outstanding 28,274,234 shares of Common Stock (29,136,734 shares if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full), assuming no exercise of options outstanding as of April 30, 1997. Of these shares, the 5,750,000 shares offered hereby (6,612,500 shares if the U.S. Underwriters' and Managers' over-allotment option is exercised in full) will be freely tradeable without restriction or further registration under the Securities Act 1933, as amended (the "Act"), unless held by "affiliates" of the Company as that term is defined in Rule 144 under the Act ("Rule 144"). The remaining 22,524,234 shares of Common Stock outstanding upon completion of the Offering are "restricted securities" as that term is defined in Rule 144.

The directors, executive officers and certain other stockholders of the Company holding an aggregate of 20,416,172 outstanding shares of Common Stock and options to purchase 967,000 shares of Common Stock, have agreed pursuant to Lock-Up Agreements that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances. The representatives of the Underwriters have informed the Company that the Underwriters have no current intention to release shares from the Lock-Up Agreements prior to expiration of the 180-day term of such agreements. Any request for release would be evaluated by the representatives of the Underwriters, and the decision whether or not to permit early release of stock would be made dependent upon the facts and circumstances existing at the time of the request. Beginning upon expiration of the Lock-Up Agreements, such shares will be eligible for sale pursuant to Rule 144 or Rule

701 under the Act ("Rule 701") subject to the provisions of such rules and continued vesting. The remaining 2,108,062 outstanding shares of Common Stock and options to purchase 94,000 shares of Common Stock are not subject to Lock-Up Agreements and will become eligible for sale upon completion of the Offering, subject to the provisions of Rule 144, Rule 701 and continued vesting. Approximately 714,596 shares of Common Stock and 35,000 shares of Common Stock subject to exercisable options will be eligible for immediate sale in the public market as of the date of this Prospectus (the "Effective Date"), none of which shares will be subject to volume and certain other restriction under Rule 144. An additional 1,358,330 outstanding shares of Common Stock will be eligible for sale in the public market 90 days after the Effective Date, of which 1,195,104 outstanding shares will not be subject to volume and certain other restrictions under Rules 144 and 701. Approximately 20,274,202 shares of Common Stock will become eligible for sale in the public market 180 days after the Effective Date upon expiration of the Lock-Up Agreements, subject to volume and certain other restrictions of Rule 144.

In general, under Rule 144 as currently in effect, a person (or persons whose stock is aggregated) who has beneficially owned stock for at least one year (including the holding period of any prior owner except an affiliate from whom such stock was purchased) is entitled to sell in "broker's transactions" or to market makers, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares of stock that does not exceed the greater of (a) one percent of the number of shares of Common Stock then outstanding (approximately 283,000 shares immediately after the Offering, or approximately 291,000 shares if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full), or (b) the average weekly trading volume in the Common Stock during the four calendar weeks preceding the required filing of a Form 144 with respect to such sale. Sales under Rule 144 are generally subject to the availability of current public information about the Company. Persons other than affiliates who have beneficially owned such stock for at least two years are not subject to the notice, manner of sale, volume or public information requirements and may sell such shares immediately following the Offering. Under Rule 701, persons who purchase stock upon exercise of options granted prior to the effective date of the Offering or who purchased stock from the Company pursuant to a written compensatory benefit plan or contract are entitled to sell such stock 90 days after the effective date of the Offering in reliance on Rule 144 without having to comply with the holding period requirements of Rule 144 and, in the case of

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persons who are not affiliates of the Company, without having to comply with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Approximately 30 days after the date of this Prospectus, the Company intends to file registration statements on Form S-8 covering approximately 667,650 restricted and control shares outstanding and subject to outstanding options issued under employee benefit plans that are not eligible for resale under Rule 144 or Rule 701 and the shares of Common Stock that have been reserved for issuance under the 1997 Stock Program, thus permitting the resale of such stock in the public market without restriction under the Act, subject, however, to Lock-Up Agreements with respect to such stock.

Prior to the Offering, there has not been any public market for the Common Stock. Future sales of substantial amounts of Common Stock in the public market could adversely affect the prevailing market prices and impair the Company's ability to raise capital through the sale of equity securities.

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CONSIDERATIONS FOR NON-U.S. HOLDERS

This is a general discussion of certain U.S. federal income and estate tax consequences of the purchase, ownership and disposition of Common Stock by a "Non-U.S. Holder." A "Non-U.S. Holder" is a person or entity that, for U.S. federal income tax purposes, is a nonresident alien individual, a foreign corporation, a foreign partnership, or a nonresident fiduciary of a foreign estate or trust as such terms are defined in the Internal Revenue Code of 1986, as amended (the "Code").

This discussion is based on the Code, and administrative interpretations as of the date hereof, all of which may be changed either retroactively or prospectively. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders in light of their particular circumstances (including the direct or indirect ownership of more than five percent of the outstanding Common Stock) and does not address any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

Treasury Regulations were recently proposed that would, if adopted in their present form, revise in certain respects the rules applicable to Non-U.S. Holders of Common Stock (the "Proposed Regulations"). The Proposed Regulations are generally to be effective with respect to payments made after December 31, 1997. It is not certain whether, or in what form, the Proposed Regulations will be adopted as final regulations.

The following summary does not constitute, and should not be considered as, legal or tax advice to prospective investors. Prospective holders should consult their tax advisers about the particular tax consequences to them of holding and disposing of Common Stock.

DIVIDENDS

Subject to the discussion below, dividends paid to a Non-U.S. Holder of Common Stock generally will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. For purposes of determining applicability of withholding tax, including at a reduced rate under a tax treaty, the Company ordinarily will presume that dividends paid to an address in a foreign country are paid to a resident of such country absent actual knowledge that such presumption is not warranted. However, under the Proposed Regulations which have not yet been put into effect, to claim the benefits of a tax treaty, a Non-U.S. Holder of Common Stock would be required to file certain forms.

Dividends paid to a holder with an address within the United States generally will not be subject to withholding tax, unless the Company has actual knowledge that the holder is a Non-U.S. Holder. Absent such actual knowledge, dividends paid to a holder with a U.S. address may be subject to 31% backup withholding if the holder is not an exempt recipient as defined in Section 6042(b)(2) of the Code (which includes corporations) and fails to provide a correct tax identification number and other information to the Company.

Upon the filing of an Internal Revenue Service Form 4224 with the Company, there is no withholding tax on dividends that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States. Instead, the effectively connected dividends are subject to regular U.S. income tax in the same manner as if the Non-U.S. Holder were a resident. Effectively connected dividends received by a non-U.S. corporation may be subject to an additional "branch profits tax" at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of its effectively connected earnings and profits, subject to certain adjustments.

GAIN ON DISPOSITION

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of Common Stock unless (i) the gain is effectively connected with a

trade or business of such holder in the United States or (ii) in the case of certain Non-U.S. Holders who are nonresident alien individuals and hold Common Stock as a capital assets, such individuals are present in the United States for 183 or more days in the taxable year of the disposition.

INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING

If the proceeds of a disposition of Common Stock are paid over by or through a U.S. office of a broker, the payment is subject to information reporting and to 31% backup withholding unless the disposing holder certifies as to his name, address, and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a non-U.S. office of a non-U.S. broker. However, U.S. information reporting requirements (but not backup withholding) will apply to a payment of disposition proceeds outside the United States if (A) the payment is made through an office outside the United States of a broker that is either (i) a U.S. person, (ii) a foreign person which derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States or (iii) a "controlled foreign corporation" for U.S. federal income tax purposes and (B) the broker fails to maintain documentary evidence that the holder is a Non-U.S. Holder and that certain conditions are met, or that the holder otherwise is entitled to an exemption.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to 31% backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the U.S. Internal Revenue Service.

Generally, the Company must report to the U.S. Internal Revenue Service the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or other agreements, the U.S. Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence.

FEDERAL ESTATE TAX

An individual Non-U.S. Holder who is treated as the owner of or has made certain lifetime transfers of an interest in Common Stock will be required to include the value thereof in his gross estate for U.S. federal estate tax purposes, and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

UNDERWRITING

Under the terms and subject to the conditions contained in the U.S. Underwriting Agreement, each of the underwriters of the U.S. Offering named below (the "U.S. Underwriters"), for whom Smith Barney Inc., Cowen & Company and Robertson, Stephens & Company LLC are acting as the representatives (the "Representatives"), has severally agreed to purchase and the Company has agreed to sell to each of the U.S. Underwriters, the number of shares of Common Stock set forth opposite the name of such U.S. Underwriter below:

U.S. UNDERWRITERS	NUMBER OF SHARES
Smith Barney Inc.....	
Cowen & Company.....	
Robertson, Stephens & Company LLC.....	
Total.....	4,600,000

Under the terms and subject to the conditions contained in the International Underwriting Agreement, each of the managers of the concurrent International Offering named below (the "Managers"), for whom Smith Barney Inc., Cowen & Company and Robertson, Stephens & Company LLC are acting as lead managers (the "Lead Managers"), has severally agreed to purchase, and the Company has agreed to sell to each Manager, the number of shares of Common Stock set forth opposite the name of such Manager below:

MANAGERS	NUMBER OF SHARES

Smith Barney Inc.....	
Cowen & Company.....	
Robertson, Stephens & Company LLC.....	

Total.....	1,150,000

Each of the U.S. Underwriting Agreement and the International Underwriting Agreement provides that the obligations of the several U.S. Underwriters and the several Managers to pay for and accept delivery of the shares of Common Stock offered hereby are subject to the approval of certain legal matters by counsel and to certain conditions. The U.S. Underwriters and the Managers are obligated to take and pay for all shares of Common Stock offered hereby (other than those covered by the over-allotment option described below) if any such shares are taken.

The U.S. Underwriters and the Managers (collectively, the "Underwriters") initially propose to offer part of the shares offered hereby directly to the public at the public offering price set forth on the cover page of this Prospectus and part of such shares offered hereby to certain dealers at a price which represents a concession not in excess of \$ per share under the public offering price. The U.S. Underwriters and the Managers may allow, and such dealers may reallow, a concession not in excess of \$ per share to other U.S. Underwriters or Managers, respectively, or to certain other dealers. After the initial public offering, the public offering price and such concessions may be changed by the Underwriters. The Representatives and the Lead Managers have advised the Company that the U.S. Underwriters and the Managers do not intend to confirm any shares to accounts over which they exercise discretionary control.

The Company has granted to the Underwriters an option, exercisable at any time and from time to time during a 30-day period from the date of this Prospectus, to purchase up to an aggregate 862,500 additional shares of Common Stock at the public offering price set forth on the cover page of this Prospectus minus the underwriting discounts and commissions. The Underwriters may exercise such option solely for the purpose of covering over-allotments, if any, in connection with the offering of the shares of

Common Stock offered hereby. To the extent such option is exercised, each Underwriter will be obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number of shares set forth opposite each Underwriter's name in the preceding table bears to the total number of shares of Common Stock offered by the Underwriters hereby.

The Company, the U.S. Underwriters and the Managers have agreed to indemnify each other against certain liabilities, including liabilities under the Act.

Each of the directors and executive officers of the Company, and certain other stockholders of the Company as designated by Smith Barney Inc. have agreed that, for a period of 180 days from the date of this Prospectus, they will not,

without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances.

The U.S. Underwriters and the Managers have entered into an Agreement Between U.S. Underwriters and Managers pursuant to which each U.S. Underwriter has agreed that, as part of the distribution of the shares offered in the U.S. Offering: (i) it is not purchasing any such shares for the account of anyone other than a U.S. or Canadian Person (as defined below) and (ii) it has not offered or sold, and will not offer, sell, resell or deliver, directly or indirectly, any of such shares or distribute any prospectus relating to the U.S. Offering outside the United States or Canada or to anyone other than a U.S. or Canadian Person. In addition, each Manager has agreed that as part of the distribution of the shares offered in the International Offering: (i) it is not purchasing any such shares for the account of any U.S. or Canadian Person, and (ii) it has not offered or sold, and will not offer, sell, resell or deliver, directly or indirectly, any of such shares or distribute any prospectus relating to the International Offering in the United States or Canada or to any U.S. or Canadian Person. Each Manager has also agreed that it will offer to sell shares only in compliance with all relevant requirements of any applicable laws.

The foregoing limitations do not apply to stabilization transactions or to certain other transactions specified in the U.S. Underwriting Agreement, the International Underwriting Agreement and the Agreement Between U.S. Underwriters and Managers, including (i) certain purchases and sales between the U.S. Underwriters and the Managers, (ii) certain offers, sales, resales, deliveries or distributions to or through investment advisors or other persons exercising investment discretion, (iii) purchases, offers or sales by a U.S. Underwriter who is also acting as a Manager or by a Manager who is also acting as a U.S. Underwriter, and (iv) other transactions specifically approved by the Representatives and Lead Managers. As used herein, "U.S. or Canadian Person" means any resident or national of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada or any estate or trust the income of which is subject to U.S. or Canadian income taxation regardless of the source of its income (other than the foreign branch of any U.S. or Canadian Person), and includes any U.S. or Canadian branch of a person other than a U.S. or Canadian Person.

Any offer of shares in Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the relevant province of Canada in which such offer is made.

Each Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in the United Kingdom, by means of any document, any shares other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Public Offering of Securities Regulation 1995, (ii) it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the shares in, from, or otherwise involving the United Kingdom, and (iii) it has only issued or passed on and will only issue or pass on to any person in the United Kingdom any document received by it in connection with the issue of the shares if that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom the document may otherwise lawfully be issued or passed on.

Pursuant to the Agreement Between U.S. Underwriters and Managers, sales may be made between the U.S. Underwriters and the Managers of such number of shares of Common Stock as may be mutually agreed. The price of any shares so sold shall be the public offering price as then in effect for Common Stock being sold by the U.S. Underwriters and the Managers, less all or any part of the selling concession, unless otherwise determined by mutual agreement. To the extent that there are sales between the U.S. Underwriters and the Managers pursuant to the Agreement Between U.S. Underwriters and Managers, the number of shares initially

available for sale by the U.S. Underwriters and by the Managers may be more or less than the number of shares appearing on the front cover of this Prospectus.

Purchasers of the Common Stock offered hereby may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price set forth on the cover page hereof.

In addition, Houlihan, Lokey, Howard & Zukin ("Houlihan") will provide the Company certain financial advisory services in connection with the Offering for which the Company will pay Houlihan \$250,000. The Company has agreed to indemnify Houlihan against certain claims in connection with Houlihan's provision of such services.

PRICE OF THE OFFERING

Prior to the Offering, there has been no public market for the Company's Common Stock. The initial public offering price was negotiated between the Company and the Representatives. Among the factors considered in determining the initial public offering price were the history of and prospects for the Company's business and the industry in which it competes, an assessment of the Company's management and the present state of the Company's development, the past and present revenues and earnings of the Company, the prospects for growth of the Company's revenue and earnings, the current state of the economy in the United States and the current level of economic activity in the industry in which the Company competes and in related or comparable industries, and currently prevailing conditions in the securities markets, including current market valuations of publicly traded companies which are comparable to the Company.

The Common Stock has been approved for listing on the Nasdaq National Market under the symbol "QADI." There can be no assurance that an active trading market will develop for the Common Stock or that the Common Stock will trade in the public market subsequent to the Offering or at or above the initial price to public.

The Representatives have advised the Company that pursuant to Regulation M under the Act, certain persons participating in the Offering may engage in transactions, including stabilizing bids, syndicate covering transactions and the imposition of penalty bids which may have the effect of stabilizing or maintaining the market price of the Common Stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the Common Stock on behalf of the Underwriters to reduce a short position incurred by the Underwriters in connection with the Offering. A "penalty bid" is an arrangement permitting the Representatives to reclaim the selling concession otherwise accruing to an Underwriter or syndicate member in connection with the Offering if the Common Stock originally sold by such Underwriter or syndicate member is purchased by the Representatives in a syndicate covering transaction in stabilization. The Representatives have advised the Company that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

LEGAL MATTERS

Certain legal matters with respect to the Common Stock offered hereby will be passed upon for the Company by Milbank, Tweed, Hadley & McCloy, Los Angeles, California, and Nida & Maloney, a Professional Corporation, Santa Barbara, California. Certain legal matters in connection with the Offering will be passed upon for the Underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation.

EXPERTS

The consolidated financial statements of QAD Inc. at January 31, 1996 and January 31, 1997 and for each of the years ended December 31, 1994 and 1995, for the one month period ended January 31, 1996 and for the year ended January 31, 1997 appearing in this Prospectus and the Registration Statement have been audited by KPMG Peat Marwick LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission"), 450 Fifth Street, N.W., Washington, D.C. 20549, a Registration Statement on Form S-1 (Reg. No. 333-28441) (the "Registration Statement") under the Act with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits and schedules filed therewith. Statements contained in this Prospectus concerning the contents of any contract or any other document are not necessarily complete, and, in each instance, reference is made to the copy of such contract, or other document filed as an exhibit to the Registration Statement. Each such statement is qualified in all respects by such reference to such exhibit. A copy of the Registration Statement, including exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois, 60661 and Seven World Trade Center, 13th Floor, New York, NY 10048, and copies of all or any part of the Registration Statement may be obtained from such offices after payment of fees prescribed by the Commission. The Commission maintains a World Wide Web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission.

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QAD INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 1997 and 1996 and the related consolidated statements of income, stockholders' equity and cash flows for the years ended January 31, 1997, December 31, 1995 and December 31, 1994 and the one month ended January 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries as of January 31, 1997 and January 31, 1996 and the results of their operations and their cash flows for the years ended January 31, 1997, December 31, 1995 and December 31, 1994 and the one month ended January 31, 1996 in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Los Angeles, California
April 11, 1997

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QAD INC.
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

	JANUARY 31, 1996	JANUARY 31, 1997	APRIL 30, 1997
	-----	-----	-----
			(UNAUDITED)
ASSETS			
Current assets:			
Cash.....	\$ 1,463	\$ 301	\$ 1,306
Trade accounts receivable, net of allowances of \$2,280, \$3,694 and \$3,646 for January 31, 1996, 1997, and April 30, 1997, respectively...	35,236	46,745	43,854
Income tax receivable.....	--	--	166
Deferred income taxes.....	3,610	4,183	2,702
Other current assets.....	1,741	2,112	4,172
	-----	-----	-----
Total current assets.....	42,050	53,341	52,200
Property and equipment, net.....	19,058	18,071	19,324
Other assets, net.....	2,037	3,051	4,836
Deferred income taxes.....	1,962	2,787	4,833
	-----	-----	-----
Total assets.....	\$ 65,107	\$ 77,250	\$ 81,193
	-----	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable and current installments of long-term debt.....	\$ 11,694	\$ 8,465	\$ 15,143
Accounts payable.....	9,525	12,516	12,238
Accrued expenses.....	5,489	9,626	6,875
Income taxes payable.....	288	741	--
Deferred revenue and deposits.....	20,904	28,602	30,160
	-----	-----	-----
Total current liabilities.....	47,900	59,950	64,416

Long-term debt, less current installments.....	7,097	5,036	4,320
Deferred revenue - noncurrent.....	981	991	756
Other deferred liabilities.....	--	379	641
Minority interest.....	106	90	108
Stockholders' equity:			
Preferred stock, Authorized 5,000,000 shares; none issued and outstanding.....	--	--	--
Common stock, no par value. Authorized 150,000,000 shares; issued and outstanding 20,978,754 shares at January 31, 1996, 22,218,572 shares at January 31, 1997 and 22,524,234 shares at April 30, 1997.....	2,223	5,942	6,554
Retained earnings.....	6,539	7,539	8,099
Receivable from stockholders.....	(151)	(197)	(642)
Unearned compensation -- restricted stock.....	--	(2,129)	(2,255)
Cumulative foreign currency translation adjustment.....	412	(351)	(804)
	-----	-----	-----
Total stockholders' equity.....	9,023	10,804	10,952
	-----	-----	-----
Total liabilities and stockholders' equity.....	\$ 65,107	\$ 77,250	\$ 81,193
	-----	-----	-----

See accompanying notes to consolidated financial statements.

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QAD INC. CONSOLIDATED STATEMENTS OF INCOME (IN THOUSANDS, EXCEPT FOR SHARE DATA)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ONE MONTH ENDED JANUARY 31, 1996	THREE MONTHS ENDED APRIL 30, 1996	THREE MONTHS ENDED APRIL 30, 1997
	-----	-----	-----	-----	-----	-----
Revenue:					(UNAUDITED)	(UNAUDITED)
License fees.....	\$ 48,665	\$ 63,756	\$ 85,753	\$ 993	\$ 11,070	\$ 19,149
Maintenance and other.....	17,695	26,193	40,691	2,479	9,046	12,924
Total revenues.....	66,360	89,949	126,444	3,472	20,116	32,073
Cost and expenses:						
Cost of revenues.....	18,944	23,599	29,158	1,649	6,863	8,462
Sales and marketing.....	21,552	38,341	53,258	3,294	13,728	13,566
Research and development.....	10,618	17,037	25,623	1,547	5,921	6,171
General and administrative.....	11,162	13,618	16,083	856	3,804	3,557
Total cost and expenses.....	62,276	92,595	124,122	7,346	30,316	31,756
Operating income (loss).....	4,084	(2,646)	2,322	(3,874)	(10,200)	317
Other (income) expense:						
Interest income.....	(34)	(38)	(52)	--	--	(48)
Interest expense.....	462	825	1,657	126	429	435
Other.....	(99)	48	(797)	(61)	(146)	(803)
Total other (income) expense.....	329	835	808	65	283	(416)
Income (loss) before income taxes.....	3,755	(3,481)	1,514	(3,939)	(10,483)	733
Income tax expense (benefit).....	877	(2,795)	514	(1,078)	(3,166)	173
Net income (loss).....	\$ 2,878	\$ (686)	\$ 1,000	\$ (2,861)	\$ (7,317)	\$ 560
Net income (loss) per share.....	\$ 0.12	\$ (0.03)	\$ 0.04	\$ (0.13)	\$ (0.33)	\$ 0.02
Weighted average number of shares used in computing net income (loss) per share....	23,886,878	21,888,583	23,533,877	22,018,373	22,166,665	24,014,963
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See accompanying notes to consolidated financial statements.

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QAD INC. CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 1994, DECEMBER 31, 1995, JANUARY 31, 1997,
ONE MONTH ENDED JANUARY 31, 1996 AND QUARTER ENDED APRIL 30, 1997

(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

	COMMON STOCK		RETAINED EARNINGS	RECEIVABLE FROM STOCKHOLDERS	RESTRICTED STOCK	
	SHARES	AMOUNT			SHARES	AMOUNT
Balance, December 31, 1993.....	20,000,000	\$ 30	\$ 7,208	\$ --	--	\$ --
Common Stock Issued:						
Under stock purchase plan.....	813,864	1,812	--	--	--	--
Under stock options.....	--	--	--	--	--	--
Pursuant to performance awards.....	59,600	131	--	--	--	--
Common stock repurchases.....	(68,606)	(168)	--	--	--	--
Translation adjustments.....	--	--	--	--	--	--
Net income (loss).....	--	--	2,878	--	--	--
Balance, December 31, 1994.....	20,804,858	1,805	10,086	--	--	--
Common Stock Issued:						
Under stock purchase plan.....	250,750	601	--	--	--	--
Under stock options.....	1,024,000	74	--	--	--	--
Pursuant to performance awards.....	148,514	336	--	--	--	--
Tax benefit associated with stock option exercise.....	--	--	--	--	--	--
Common stock repurchases.....	(1,262,370)	(624)	--	--	--	--
Receivable from stockholders.....	--	--	--	(151)	--	--
Translation adjustments.....	--	--	--	--	--	--
Net income (loss).....	--	--	(686)	--	--	--
Balance, December 31, 1995.....	20,965,752	2,192	9,400	(151)	--	--
Common Stock Issued:						
Pursuant to performance awards.....	23,722	57	--	--	--	--
Common stock repurchases.....	(10,720)	(26)	--	--	--	--
Translation adjustments.....	--	--	--	--	--	--
Net income (loss).....	--	--	(2,861)	--	--	--
Balance, January 31, 1996.....	20,978,754	2,223	6,539	(151)	--	--
Common Stock Issued:						
Under stock purchase plan.....	793,438	1,411	--	--	--	--
Under stock options.....	105,000	185	--	--	--	--
Pursuant to performance awards.....	108,062	256	--	--	--	--
Pursuant to restricted stock awards....	559,066	2,584	--	--	(559,066)	(2,584)
Common stock earned under restricted stock awards.....	--	--	--	--	149,954	455
Common stock repurchases.....	(325,748)	(717)	--	--	--	--
Receivable from stockholders.....	--	--	--	(46)	--	--
Translation adjustments.....	--	--	--	--	--	--
Net income (loss).....	--	--	1,000	--	--	--
Balance, January 31, 1997.....	22,218,572	5,942	7,539	(197)	(409,112)	(2,129)
Common Stock Issued (unaudited):						
Under stock purchase plan.....	211,760	2,017	--	--	--	--
Under stock options.....	299,000	709	--	--	--	--
Pursuant to performance awards.....	62,060	431	--	--	--	--
Pursuant to restricted stock awards....	20,400	194	--	--	(20,400)	(194)
Common stock earned under restricted stock awards.....	--	--	--	--	16,966	68
Common stock repurchases (unaudited)....	(287,558)	(2,739)	--	--	--	--
Receivable from stockholders (unaudited).....	--	--	--	(445)	--	--
Translation adjustments (unaudited).....	--	--	--	--	--	--
Net income (loss) (unaudited).....	--	--	560	--	--	--
Balance, April 30, 1997.....	22,524,234	\$ 6,554	\$ 8,099	\$ (642)	(412,546)	\$ (2,255)

	CUMULATIVE TRANSLATION ACCOUNT	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1993.....	\$ (140)	\$ 7,098
Common Stock Issued:		
Under stock purchase plan.....	--	1,812
Under stock options.....	--	--
Pursuant to performance awards.....	--	131
Common stock repurchases.....	--	(168)
Translation adjustments.....	242	242
Net income (loss).....	--	2,878
Balance, December 31, 1994.....	102	11,993
Common Stock Issued:		
Under stock purchase plan.....	--	601
Under stock options.....	--	74
Pursuant to performance awards.....	--	336
Tax benefit associated with stock option exercise.....	--	--
Common stock repurchases.....	--	(624)
Receivable from stockholders.....	--	(151)
Translation adjustments.....	189	189
Net income (loss).....	--	(686)
Balance, December 31, 1995.....	291	11,732
Common Stock Issued:		
Pursuant to performance awards.....	--	57
Common stock repurchases.....	--	(26)
Translation adjustments.....	121	121
Net income (loss).....	--	(2,861)
Balance, January 31, 1996.....	412	9,023
Common Stock Issued:		
Under stock purchase plan.....	--	1,411
Under stock options.....	--	185
Pursuant to performance awards.....	--	256

Pursuant to restricted stock awards....	--	--
Common stock earned under restricted stock awards.....	--	455
Common stock repurchases.....	--	(717)
Receivable from stockholders.....	--	(46)
Translation adjustments.....	(763)	(763)
Net income (loss).....	--	1,000
	-----	-----
Balance, January 31, 1997.....	(351)	10,804
Common Stock Issued (unaudited):		
Under stock purchase plan.....	--	2,017
Under stock options.....	--	709
Pursuant to performance awards.....	--	431
Pursuant to restricted stock awards....	--	--
Common stock earned under restricted stock awards.....	--	68
Common stock repurchases (unaudited)....	--	(2,739)
Receivable from stockholders (unaudited).....	--	(445)
Translation adjustments (unaudited).....	(453)	(453)
Net income (loss) (unaudited).....	--	560
	-----	-----
Balance, April 30, 1997.....	\$ (804)	\$ 10,952
	-----	-----

See accompanying notes to consolidated financial statements.

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QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ONE MONTH ENDED JANUARY 31, 1996	THREE MONTHS ENDED APRIL 30, 1996	THREE MONTHS ENDED APRIL 30, 1997
	-----	-----	-----	-----	-----	-----
					(UNAUDITED)	(UNAUDITED)
Cash flows from operating activities:						
Net income (loss).....	\$ 2,878	\$ (686)	\$ 1,000	\$ (2,861)	\$ (7,317)	\$ 560
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization.....	2,664	4,346	5,345	390	1,319	1,583
Provision for doubtful accounts and sales returns.....	1,333	945	3,432	(25)	701	585
Loss on disposal of equipment.....	--	--	25	--	--	(11)
Minority interest.....	--	--	(16)	106	(98)	18
Compensation expense pursuant to stock repurchase.....	--	2,408	--	--	--	--
Compensation expense pursuant to stock awards.....	131	336	1,044	57	156	755
Changes in assets and liabilities:						
(Increase) decrease in assets:						
Trade accounts receivable.....	(8,886)	(15,103)	(14,941)	5,444	8,180	2,306
Income tax receivable.....	--	(231)	--	231	--	(166)
Deferred income taxes.....	(1,306)	(3,780)	(1,398)	(1,781)	(3,576)	(565)
Other assets.....	(1,389)	(1,929)	(2,408)	(15)	(1,646)	(4,221)
Increase (decrease) in liabilities:						
Accounts payable.....	3,209	6,283	2,991	(2,816)	2,761	(278)
Accrued expenses.....	1,500	2,236	4,137	(607)	(438)	(2,751)
Income taxes payable.....	572	(1,192)	453	288	(197)	(741)
Deferred revenue and deposits.....	3,340	10,459	7,708	539	229	1,323
Other deferred liabilities.....	--	--	46	--	19	6
Foreign currency translation adjustment.....	242	189	(763)	121	(104)	(453)
Net cash provided by (used in) operating activities.....	4,288	4,281	6,655	(929)	(11)	(2,050)
Cash flows from investing activities:						
Additions to land and buildings.....	(5,819)	(2,341)	(435)	(206)	(21)	(69)
Purchase of property and equipment	(4,028)	(7,243)	(3,008)	(735)	(1,153)	(2,400)
Proceeds from disposition of property and equipment.....	11	117	83	--	--	20
Net cash used in investing activities.....	(9,836)	(9,467)	(3,360)	(941)	(1,174)	(2,449)

(Continued)

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QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ONE MONTH ENDED JANUARY 31, 1996	THREE MONTHS ENDED APRIL 30, 1996	THREE MONTHS ENDED APRIL 30, 1997
					(UNAUDITED)	(UNAUDITED)
Cash flows from financing activities:						
Proceeds from notes payable and long-term debt.....	\$ 22,019	\$ 24,654	\$ 84,841	\$ 4,254	\$ 11,365	\$ 32,980
Reduction of notes payable and long-term debt.....	(17,822)	(19,555)	(90,131)	(2,414)	(10,252)	(27,018)
Issuance of common stock for cash.....	1,812	675	1,596	--	--	2,726
Repurchase of common stock.....	(168)	(624)	(717)	(26)	(85)	(2,739)
Receivable from stockholders.....	--	(151)	(46)	--	--	(445)
Net cash provided by (used in) financing activities.....	5,841	4,999	(4,457)	1,814	1,028	5,504
Net increase (decrease) in cash.....	293	(187)	(1,162)	(56)	(157)	1,005
Cash at beginning of period.....	1,413	1,706	1,463	1,519	1,463	301
Cash at end of period.....	\$ 1,706	\$ 1,519	\$ 301	\$ 1,463	\$ 1,306	\$ 1,306
Supplemental disclosure of cash flow information:						
Cash paid during the period for:						
Interest.....	\$ 462	\$ 824	\$ 1,553	\$ 99	\$ 345	\$ 351
Income taxes.....	\$ 876	\$ 1,087	\$ 707	\$ 6	\$ 508	\$ 1,766

Supplemental disclosure of noncash investing and financing activities:

During calendar 1994 and 1995, fiscal year ended January 31, 1997 and the one month ended January 31, 1996, the Company acquired property and equipment under capital lease obligations aggregating \$1,863,517, \$1,081,087, \$97,200 and \$79,263, respectively.

During calendar 1995, the Company issued a note payable in the amount of \$2,407,788 in connection with the repurchase of common shares.

See accompanying notes to consolidated financial statements.

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

The Company is a leading provider of Enterprise Resource Planning software for multinational and other large manufacturing companies. The Company's software solutions are designed to facilitate global management of resources and information to allow manufacturers to reduce order fulfillment cycle times and inventories, improve operating efficiencies and measure critical company performance criteria against defined business plan objectives. The flexibility of the Company's products also helps manufacturers adapt to growth, organizational change, business process reengineering, supply chain management and other challenges.

Effective February 1, 1996, the Company determined that it would change its reporting period from years ending December 31 to fiscal years ending January 31. Accordingly, the accompanying statements of income, stockholders' equity and cash flows include results for the one month transition period ending January 31, 1996.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of QAD Inc. and its majority-owned subsidiaries. The Company also has various branch offices worldwide. All intercompany accounts and transactions have been eliminated in consolidation.

INTERIM FINANCIAL INFORMATION

The financial statements as of April 30, 1997 and for the three months ended April 30, 1996 and 1997 are unaudited but reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of financial position and results of operations. Operating results for the three months ended April 30, 1997 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 1998.

CONCENTRATIONS OF CREDIT RISK

Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different industries and geographic locations throughout the world. At January 31, 1997 and April 30, 1997, one customer had an outstanding receivable that constituted 12% and 7% of the Company's net trade accounts receivable, respectively. There were no other concentrations of such credit risk for the periods presented.

USE OF ESTIMATES

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

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

The Company's principal source of software license fee revenue is derived from licensing MFG/PRO software. Revenues from maintenance and other activities are generated from maintenance support services, training and consulting and are billed separately from license revenues. Revenues from software license agreements, including licenses sold through distributors, are recognized at the time of shipment, net of any applicable distributor discount, provided there are no remaining significant obligations to be fulfilled by the Company and collectibility is probable within a 12-month period from date of shipment. Where distributors have reproduction rights, revenue is recognized upon notification of shipment by the distributor. Typically, the Company's software licenses do not include significant vendor obligations. Where license contracts call for payment terms in excess of 12 months from date of shipment, revenue is recognized as payments become due. Maintenance revenues for ongoing customer support and product updates are recognized ratably over the term of the maintenance period, which is generally 12 months. Training and consulting revenues are recognized as the services are performed. Returns and allowances

are estimated and provided for in the period of sale.

Revenue on all sales in which there are outstanding obligations to provide resources over a period of time, as a component of the sale, is deferred and recognized as services are provided on a percentage of completion basis. At December 31, 1995, and January 31, 1997 \$2,261,000 and \$811,000, respectively, of revenue, net of related expenses, had been deferred until future periods for recognition as services are provided. Further, the Company recognizes revenue consistent with customer payment terms on all sales where extended payment terms beyond one year are granted. At January 31, 1997, sales contracts totalling \$4,259,000 having payment terms through January 31, 2000 were deferred, to be recognized as payments become due.

DEPRECIATION AND AMORTIZATION

Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the related assets. Asset lives range from three to seven years. Leasehold improvements are amortized on a straight-line basis over the term of the lease or the life of the related improvements, whichever is shorter.

COMPUTER SOFTWARE COSTS

Pursuant to Statement of Financial Accounting Standards (SFAS) No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," issued by the Financial Accounting Standards Board, the Company capitalizes software development costs incurred in connection with the translation of its products into foreign languages once technological feasibility has been achieved. Capitalized development costs are amortized on a straight-line basis over three years and charged to cost of revenues. All other development costs are expensed to research and development as incurred.

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) ACCRUED EXPENSES

Accrued expenses are as follows:

	JANUARY 31,		
	1996	1997	APRIL 30,
			1997
			(UNAUDITED)
Accrued payroll.....	\$ 4,982	\$ 7,611	\$ 5,505
Accrued other.....	507	2,015	1,370
	\$ 5,489	\$ 9,626	\$ 6,875

INCOME TAXES

The Company provides for income taxes under Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," which employs an asset and liability approach in accounting for income taxes payable or refundable at the date of the financial statements as a result of all events

that have been recognized in the financial statements and as measured by the provisions of enacted laws.

COMPUTATION OF NET INCOME (LOSS) PER SHARE

Net income (loss) per share has been computed using the weighted average number of shares of common stock and common stock equivalents outstanding using the treasury-stock method summarized as follows:

	YEAR ENDED DECEMBER 31,		YEAR ENDED	ONE MONTH ENDED	THREE MONTHS ENDED	
	1994	1995	JANUARY 31, 1997	JANUARY 31, 1996	APRIL 30,	
					1996	1997
					(UNAUDITED)	(UNAUDITED)
Weighted average shares of common stock and common stock equivalents outstanding.....	23,098,539	21,100,244	22,745,538	21,230,034	21,378,326	23,226,624
Weighted average shares of common stock and common stock equivalents issued or to be issued during the 12 months preceding the initial public offering.....	788,339	788,339	788,339	788,339	788,339	788,339
Shares used in income (loss) per share calculation.....	23,886,878	21,888,583	23,533,877	22,018,373	22,166,665	24,014,963

Pursuant to the requirements of the Securities and Exchange Commission, common stock and common stock options issued by the Company during the 12 months immediately preceding an initial public offering are included in the calculation of the weighted average shares outstanding for all periods presented using the treasury-stock method, based on the estimated offering price, for stock options. The impact of incremental shares arising from options granted within one year of the initial public offering is included for all periods, including loss periods where the effect on loss per share is anti-dilutive. Accordingly, weighted average shares of common stock and common stock equivalents outstanding include

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

788,339 shares as a result of common stock and stock options issued within 12 months of the initial public offering and are shown as outstanding for all periods presented, including loss periods.

Stock options issued more than 12 months before the initial public offering date are excluded from the computation for loss periods as their inclusion would be anti-dilutive.

FOREIGN CURRENCY TRANSLATION

The functional currency of each foreign subsidiary is its own local currency. Accordingly, in consolidation, assets and liabilities are translated to U.S. dollars at the exchange rate on the balance sheet date. Resulting translation adjustments are accumulated as a separate component of stockholders' equity. Revenues, costs and expenses are translated at average rates for each month. (Gains) and losses from foreign currency transactions are reflected in net earnings in the year incurred, classified as "other income expense," and totaled approximately \$343,000, \$477,000, \$(407,000) and \$(34,000) for the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and the one month period ended January 31, 1996, respectively. For the three month period ended April 30, 1997, foreign currency transaction gains included in other income totalled \$430,000.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the following financial instruments approximate fair value because of the short maturity of those instruments: accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, deferred revenue and deposits.

The carrying value of the Company's obligations under capital leases, notes payable and long-term debt approximates fair value and was estimated by discounting the future cash flows of the capital leases, notes payable and long-term debt at rates currently offered to the Company for similar capital leases, notes payable and long-term debt of comparable maturities by the Company's bankers.

LONG-LIVED ASSETS

The Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," during 1995. This statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted operating cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Adoption of this statement did not have a material impact on the Company's financial position, results of operations or liquidity.

ACCOUNTING FOR STOCK OPTIONS

Prior to January 1, 1996, the Company accounted for its stock option grants in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants

made in 1995, 1996 and future years as if the fair value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Standards Board issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 specifies new standards designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, `revising the disclosure requirements and increasing the comparability of EPS data on an international basis. Some of the changes made to simplify the EPS computations include: (a) eliminating the presentation of primary EPS and replacing it with basic EPS, with the principal difference being that common stock equivalents are not considered in computing basic EPS, (b) eliminating the modified treasury stock method and the three percent materiality provision and (c) revising the contingent share provision and the supplemental EPS data requirements. SFAS No. 128 also makes a number of changes to existing disclosure requirements. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The Company has not determined the impact of the implementation of SFAS No. 128.

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

2. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows (in thousands):

	JANUARY 31, 1996 -----	JANUARY 31, 1997 -----	APRIL 30, 1997 ----- (UNAUDITED)
Land and buildings.....	\$ 8,367	\$ 8,802	\$ 8,871
Automobiles.....	75	71	93
Computer equipment and software.....	10,628	12,306	14,833
Furniture and office equipment.....	5,278	6,160	6,403
Leasehold improvements.....	872	1,032	1,349
Equipment under capital lease.....	1,884	1,921	1,070
	-----	-----	-----
	27,104	30,292	32,619
Less accumulated depreciation and amortization, which includes \$650, \$1,217 and \$469 for January 31, 1996, January 31, 1997 and April 30, 1997, respectively, for equipment under capital leases.....	(8,046)	(12,221)	(13,295)
	-----	-----	-----
Net property and equipment.....	\$ 19,058	\$ 18,071	\$ 19,324
	-----	-----	-----

Included in land and buildings is capitalized interest aggregating \$290,000, \$329,000 and \$329,000 as of January 31, 1996, January 31, 1997 and April 30, 1997, respectively.

3. OTHER ASSETS

Other assets at January 31, 1996, January 31, 1997 and April 30, 1997 include capitalized software development costs of \$858,000, \$1,065,000 and \$1,218,000 (net of \$1,671,000, \$2,341,000 and \$2,511,000 of accumulated amortization), respectively. Amortization of these costs totaled \$550,000, \$694,000, \$671,000 and \$61,000 during the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and one month ended January 31, 1996, respectively. For the interim periods ended April 30, 1996 and 1997, such costs aggregated \$168,000 and \$172,000, respectively. Amortization costs are included in cost of revenues. Software development costs incurred prior to achieving technological feasibility are expensed as incurred as research and development. Such costs aggregated \$10,618,000, \$17,037,000, \$25,623,000 and \$1,547,000 for the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and one month ended January 31, 1996, respectively. For the interim periods ended April 30, 1996 and 1997, such costs aggregated \$5,921,000 and \$6,171,000, respectively.

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

4. NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt are summarized as follows (in thousands):

	JANUARY 31, 1996	JANUARY 31, 1997	APRIL 30, 1997 (UNAUDITED)
Advances under a \$16,000,000 revolving credit agreement with a bank, secured by substantially all assets and guarantees of certain stockholders, bearing interest at the highest LIBOR for the period (5.49% at January 31, 1997) plus 4.875% per annum, expiring July 1997.....	\$ --	\$ 4,349	\$ 11,265
Advances under a \$15,000,000 line of credit agreement with a bank, secured by accounts receivable and guarantees of certain stockholders, bearing interest at the prime rate (8.5% at January 31, 1996) plus .85% per annum, expiring June 1996.....	5,525	--	--
Term notes payable, secured by property and equipment, payable in monthly installments ranging from \$6,276 to \$41,667, at interest rates ranging from 8.29% to 10.365% per annum, expiring from June 1997 to December 1999.....	5,510	5,258	4,429
Note payable under term portion of credit agreement, secured by real estate, principal payable commencing August 1996 in monthly installments of \$66,666 plus interest at the highest LIBOR during the month (5.49% at January 31, 1997) plus 4.875% per annum (to be no less than 8% per annum), through July 2001.....	--	3,600	3,400
Notes payable, secured by real estate, payable in monthly installments ranging from \$10,194 to \$30,783, at interest rates ranging from 9.0% to 9.85% per annum, expiring from October 1997 to July 2004.....	4,300	--	--
Term note payable, net of unamortized discount of \$91,931 at 9.35% per annum, unsecured, payable \$848,750 on February 29, 1996, \$628,750 on May 31, 1996, \$628,750 on August 31, 1996 and \$408,750 on November 30, 1996.....	2,423	--	--
Note payable, secured by leasehold improvements, payable in monthly installments of \$681 through February 1998.....	17	9	7
Capital lease obligations.....	1,016	285	362
	18,791	13,501	19,463
	(11,694)	(8,465)	(15,143)
Less current installments.....	\$ 7,097	\$ 5,036	\$ 4,320

The Company's revolving credit agreement expires on July 31, 1997, subject to automatic successive one-year extensions if not terminated by the Company or the lender 90 days prior to the expiration date. The maximum available amount of borrowings under the revolving credit agreement is equal to the lesser of \$20 million or the sum of a percentage of the Company's accounts receivable, \$4

million of which may

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

4. NOTES PAYABLE AND LONG-TERM DEBT (CONTINUED)

be used only for loans secured by real estate owned by the Company. The total amount of available borrowings under the revolving credit agreement at April 30, 1997 was approximately \$20 million. Borrowings under the revolving credit agreement bear interest, calculated monthly, at an annual rate equal to the highest LIBOR rate in effect during the month plus 4.875% but in no event less than 8%. Minimum monthly interest charges are \$20,000 (resulting in a rate of 10.565% at April 30, 1997). The Company's revolving credit agreement is collateralized by a security interest in substantially all of the Company's assets.

At January 31, 1997, future minimum principal payments of notes payable and long-term debt are as follows (in thousands):

Year ending January 31:

1998.....	\$ 8,465
1999.....	2,615
2000.....	1,221
2001.....	800
2002.....	400

	\$ 13,501

5. DEFERRED REVENUE

The Company bills for ongoing maintenance and post-sale customer support separately from sales of products and records such amounts as deferred revenue when billed. Deferred revenue aggregated \$21,228,000, \$29,125,000 and \$30,228,000 at January 31, 1996, January 31, 1997 and April 30, 1997, respectively. Revenue under maintenance contracts is recognized ratably over the term of the contract which is typically 12 months.

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

6. INCOME TAXES

Components of income tax expense (benefit) are as follows (in thousands):

ONE MONTH

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ENDED JANUARY 31, 1996
Current:				
Federal.....	\$ 943	\$ 371	\$ 672	\$ (1,402)
State.....	313	110	(63)	(203)
Foreign.....	264	503	227	890
Total.....	1,520	984	836	(715)
Deferred:				
Federal.....	(562)	(1,946)	(94)	80
State.....	(81)	(290)	(10)	9
Foreign.....	--	(1,543)	(218)	(452)
Total.....	(643)	(3,779)	(322)	(363)
	\$ 877	\$ (2,795)	\$ 514	\$ (1,078)

Statement of Financial Accounting Standards No. 109 requires companies to record deferred tax assets for the benefit to be derived from deductible temporary differences, net of appropriate valuation reserves to reflect management estimates of realizability of such deferred tax assets. The tax effects of

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

6. INCOME TAXES (CONTINUED)

temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands):

	JANUARY 31, 1996	JANUARY 31, 1997
Deferred tax assets:		
Allowance for bad debts.....	\$ 759	\$ 1,387
Accrued vacation.....	611	524
Alternative minimum tax.....	187	98
Research and development.....	914	1,217
Foreign tax credits.....	--	778
Long term contract.....	859	328
Net operating loss carryforwards.....	4,044	5,054
Other.....	12	34
	7,386	9,420
Less valuation allowance.....	(1,163)	(2,081)
Net deferred tax assets.....	6,223	7,339
Less current portion (net of \$95 and \$633 valuation allowance, respectively).....	(4,103)	(4,655)
Long-term net deferred tax assets (net of \$1,068 and \$1,448 valuation allowance, respectively).....	\$ 2,120	\$ 2,684
Deferred tax liabilities:		
Capitalized translation costs.....	\$ 343	\$ 355
Foreign sales corporation.....	85	--
State income taxes.....	52	119
Other.....	13	(2)
Depreciation and amortization.....	158	(103)
	651	369
Less current portion.....	(493)	(472)
Long-term deferred tax liabilities.....	\$ 158	\$ (103)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is

dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

For U.S. tax purposes, management has determined that the realization of recorded deferred tax assets arising in the United States is reasonably assured, and accordingly, no valuation allowance has been recorded on such items. With available tax planning strategies and projections of future income over the periods in which the foreign deferred tax assets are deductible, management believes it is more likely than not that the Company will realize a portion of the benefits of these deductible differences on tax returns

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

6. INCOME TAXES (CONTINUED)

filed in foreign jurisdictions. However, there can be no assurance that any taxable income will be generated in the respective foreign jurisdictions.

The Company's net operating loss carryforward benefits aggregating \$5.1 million at January 31, 1997 arise principally from losses incurred by foreign subsidiaries and expire commencing in 2001.

At January 31, 1996 and January 31, 1997, the valuation allowance attributable to deferred tax assets was \$1,163,000 and \$2,081,000, respectively, an overall increase of \$918,000.

Actual income tax expense (benefit) differs from that obtained by applying the statutory Federal income tax rate to earnings before income taxes as follows (in thousands):

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ONE MONTH ENDED JANUARY 31, 1996
Computed expected tax expense (benefit).....	\$ 1,277	\$ (1,183)	\$ 515	\$ (1,339)
State income taxes, net of Federal income tax benefit.....	153	(209)	91	(236)
Tax expense from foreign operations.....	385	--	117	649
Alternative minimum tax ("AMT").....	--	182	--	--
Net change in deferred tax assets and liabilities.....	(643)	(1,856)	918	(87)
Meals and entertainment.....	232	279	286	9
Foreign sales corporation.....	242	1,341	(539)	--
Research, AMT and foreign tax credits.....	(747)	(1,386)	(1,208)	(174)
Additional liability provided.....	--	--	350	94
Other.....	(22)	37	(16)	6
	\$ 877	\$ (2,795)	\$ 514	\$ (1,078)

7. 401(K) PLAN

The Company has a defined contribution 401(k) plan which is available to U.S. employees after 30 days of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. The Company may make additional contributions at the discretion of the Board of Directors. Participants are immediately vested in their employee contributions. Employer contributions vest over a five-year period. The employer contributions for the years ended December 31, 1994, December 31, 1995 and January 31, 1997 were \$391,000, \$101,000 and \$422,000, respectively, which are included in general and administrative expenses in the accompanying consolidated statements of income.

QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

8. COMMITMENTS AND CONTINGENCIES

The Company finances equipment under capital leases and leases office facilities under operating lease agreements expiring through 2002. The present value of future minimum capital lease payments and future minimum lease payments under noncancelable operating leases is as follows (in thousands):

	CAPITAL LEASES	OPERATING LEASES
	-----	-----
Year ending January 31:		
1998.....	\$ 259	\$ 4,730
1999.....	40	3,533
2000.....	3	2,450
2001.....	--	1,209
2002.....	--	700
	-----	-----
Total minimum lease payments.....	302	\$ 12,622

Less amount representing interest at rates ranging from 11% to 14.5%.....	(17)	

Present value of minimum lease payments.....	\$ 285	

Total rent expense for the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and one month ended January 31, 1996 aggregated \$3,056,000, \$4,981,000, \$5,929,000 and \$457,000, respectively.

9. GEOGRAPHIC INFORMATION

The following table shows revenues, operating income (loss) and identifiable assets by geographic segment (in thousands):

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997
	-----	-----	-----
Revenue:			
U.S.....	\$ 36,380	\$ 49,955	\$ 73,519
Europe.....	18,469	24,619	32,725
Asia/Pacific.....	9,320	12,354	15,543
Other.....	2,191	3,021	4,657
	-----	-----	-----
	\$ 66,360	\$ 89,949	\$ 126,444
	-----	-----	-----
Operating income (loss):			
U.S.....	\$ 5,014	\$ 1,094	\$ 6,441
Europe.....	(341)	1,251	341
Asia/Pacific.....	(1,142)	(5,621)	(5,691)
Other.....	553	630	1,231
	-----	-----	-----
	\$ 4,084	\$ (2,646)	\$ 2,322

	JANUARY 31, 1996	JANUARY 31, 1997
Identifiable assets:		
U.S.....	\$ 46,959	\$ 36,661
Europe.....	18,691	17,603
Asia/Pacific.....	9,226	9,429
Other.....	2,374	1,414
	<u>\$ 77,250</u>	<u>\$ 65,107</u>

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

10. EMPLOYEE STOCK OPTION, PURCHASE PLANS AND RESTRICTED STOCK AWARDS

EMPLOYEE STOCK OPTION AGREEMENTS

The Company has stock option agreements with certain key employees. As of January 31, 1997 and April 30, 1997, options to purchase 1,121,000 and 1,061,000 shares of common stock had been granted and were outstanding. Outstanding options generally vest over a five-year period and have contractual lives of 10 years. Transactions in stock options are summarized as follows:

	SHARES	WEIGHTED AVERAGE PRICE	OPTIONS EXERCISABLE
Outstanding options at December 31, 1993.....	2,350,000	\$ 0.18	1,904,000
Options issued.....	--		
Options exercised.....	--		
Options expired and terminated.....	--		
Outstanding options at December 31, 1994.....	2,350,000	0.18	2,114,000
Options issued.....	--		
Options exercised.....	(1,024,000)	0.02	
Options expired and terminated.....	--		
Outstanding options at December 31, 1995.....	1,326,000	0.31	1,240,000
Options issued.....	--		
Options exercised.....	--		
Options expired and terminated.....	--		
Outstanding options at January 31, 1996.....	1,326,000	0.31	1,240,000
Options issued.....	--		
Options exercised.....	(105,000)	0.40	

Options expired and terminated.....	(100,000)	1.61	
Outstanding options at January 31, 1997.....	1,121,000	0.18	1,121,000
Options issued.....	239,000	11.55	
Options exercised.....	(299,000)	0.21	
Options expired and terminated.....	--		
Outstanding options at April 30, 1997.....	1,061,000	\$ 2.73	822,000

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

10. EMPLOYEE STOCK OPTION, PURCHASE PLANS AND RESTRICTED STOCK AWARDS
(CONTINUED)

The weighted average remaining contractual life of stock options outstanding as of April 30, 1997 was as follows:

RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING AT APRIL 30, 1997	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE	
				NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$0.12.....	225,000	2.8	\$ 0.12	225,000	\$ 0.12
0.19.....	577,000	3.3	0.19	577,000	0.19
0.39.....	20,000	4.6	0.39	20,000	0.39
9.52 to 13.00.....	239,000	9.8	11.55	--	--
	-----	-----	-----	-----	-----
Total.....	1,061,000	4.7	2.73	822,000	\$ 0.17
	-----	-----	-----	-----	-----

The Company applies APB Opinion No. 25 in accounting for its option plans and, accordingly, no compensation cost was recognized as the exercise price of the stock options equalled the fair value at the grant date. The pro forma impact of applying SFAS No. 123 is not presented for the years ended December 31, 1995 and January 31, 1997 as SFAS 123 is applicable only to options granted during fiscal 1995 and later, and all options outstanding as of January 31, 1997 were granted prior to 1995.

During 1995, the Company repurchased 1,000,000 shares issued to an employee immediately upon exercise of stock options. Accordingly, the Company recorded compensation expense of \$2,408,000 in the accompanying consolidated financial statements for the year ended December 31, 1995. Additionally, during the year ended January 31, 1997 certain employees holding vested options with respect to 70,000 shares at an average of \$0.27 per share noticed their intention to terminate employment. The Company determined that it would reacquire the shares which would be issued to the employees. Accordingly, \$648,000 of compensation expense representing the difference between exercise price and acquisition cost, has been accrued as compensation expense at January 31, 1997.

1994 STOCK OWNERSHIP PROGRAM

The Company has also established the QAD Inc. 1994 Stock Ownership Program (the "Plan") covering 4,800,000 shares of its common stock. Subject to certain limitations, the Plan allows eligible employees to purchase shares of common stock at the fair market value of the common stock by direct cash payment or at 95% of the fair market value through payroll deduction. The Company has the right, but not the obligation, to repurchase shares at fair value upon the termination of employment. During the years ended December 31, 1994, December 31, 1995, and January 31, 1997 and the three months ended April 30, 1997, 813,864, 250,750, 793,438 and 211,760 shares, respectively, were issued under the Plan at average prices of \$2.23, \$2.40, \$1.78 and \$9.53, respectively. No shares were issued under the Plan in January 1996.

During the year ended January 31, 1997 and the three months ended April 30, 1997, respectively, 559,066 and 20,400 restricted shares of the Company's common stock were granted to certain employees. The fair market value of shares awarded was \$2,584,000 and \$194,000, respectively. These amounts were recorded as unearned compensation--restricted stock, shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the periods in which the restrictions

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

10. EMPLOYEE STOCK OPTION, PURCHASE PLANS AND RESTRICTED STOCK AWARDS (CONTINUED)

lapse, generally one to three years from date of award. Such expenses amounted to \$788,000 and \$324,000 in the year ended January 31, 1997 and the three months ended April 30, 1997, respectively, \$333,000 and \$256,000 of which is included in accrued compensation, respectively, and \$455,000 and \$68,000 of which has been recorded as a reduction in unearned compensation--restricted stock as the restricted shares are issued to employees.

During the years ended December 31, 1994, December 31, 1995 and January 31, 1997, and one month ended January 31, 1996, the Company granted 59,600, 148,600, 108,000 and 24,000 unrestricted shares, respectively, to certain employees having a fair value of \$131,000, \$336,000, \$256,000 and \$57,000 at date of grant, respectively. Compensation expense has been recognized in each respective period for the fair value of such stock grants. Unrestricted stock grants aggregating 62,000 shares in the three months ended April 30, 1997 with a value of \$431,000 are included under costs and expenses for the period.

1997 STOCK INCENTIVE PROGRAM (UNAUDITED)

The Company intends to adopt the 1997 Stock Incentive Program (the "Program"). The Program consists of seven parts:

The first part is the Incentive Stock Option Plan under which are granted incentive stock options. The second part is the NonQualified Stock Option Plan under which are granted nonqualified stock options. The third part is the Restricted Share Plan under which are granted restricted shares of Common Stock.

The fourth part is the Employee Stock Purchase Plan. The fifth part is the Non-Employee Director Stock Option Plan under which grants of options to purchase shares of Common Stock may be made to non-employee directors of the Company. The sixth part is the Stock Appreciation Rights Plan under which SARs (as defined therein) are granted. The seventh part is the Other Stock Rights Plan under which (i) units representing the equivalent shares of Common Stock are granted; (ii) payments of compensation in the form of shares of Common Stock are granted; and (iii) rights to receive cash or shares of Common Stock based on the value of dividends paid with respect to a share of Common Stock are granted. The maximum aggregate number of shares of Common Stock subject to the Program is 4,000,000 shares. The Program will be valid for 10 years from the date of adoption.

TOTAL COMPENSATION COST RECOGNIZED FOR STOCK-BASED COMPENSATION PLANS

Total compensation cost recognized for stock-based employee compensation awards was as follows:

	YEAR ENDED			THREE MONTHS
	DECEMBER 31, 1994	DECEMBER 31, 1995	JANUARY 31, 1997	ENDED APRIL 30, 1997
Pursuant to performance awards.....	\$ 131,000	\$ 336,000	\$ 256,000	\$ 431,000
Pursuant to restricted stock grants.....	--	--	788,000	324,000
Pursuant to optioned shares repurchased immediately upon exercise.....	--	2,408,000	648,000	--
Total.....	\$ 131,000	\$2,744,000	\$ 1,692,000	\$ 755,000

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QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(INFORMATION RELATING TO THE THREE MONTHS ENDED
APRIL 30, 1996 AND APRIL 30, 1997 IS UNAUDITED)

10. EMPLOYEE STOCK OPTION, PURCHASE PLANS AND RESTRICTED STOCK AWARDS (CONTINUED)

During the one month-period ended January 31, 1996 compensation cost aggregating \$57,000 was recognized pursuant to stock performance awards.

RECEIVABLE FROM STOCKHOLDERS

In connection with the 1994 Stock Ownership Program, the Company has guaranteed indebtedness incurred by certain stockholders to purchase shares with cash deposited with a lending institution. These amounts are classified as "Receivable from Stockholders" in the accompanying balance sheets.

11. INVESTMENT

In March 1997, the Company acquired an interest in a high technology company for an aggregate purchase price of \$1.0 million, \$400,000 of which had been advanced at January 31, 1997. The Company has an option to acquire an additional interest in the business for an aggregate purchase price of \$2.0 million, which

option expires no later than September 15, 1997. Should the option be exercised, the Company will own a 33% interest in the enterprise.

12. SUBSEQUENT EVENT AND PLANNED STOCK SPLIT

Subsequent to January 31, 1997 the Company began efforts to complete an offering of shares to the public through the filing of a Form S-1 Registration Statement with the Securities and Exchange Commission. In connection with the planned public offering, the board of directors has resolved to reincorporate in the State of Delaware prior to completion of the offering and, further, resolved to increase the number of authorized shares and split its common shares in a 2-for-1 stock split.

For financial reporting purposes, the stock split has been given effect in the accompanying consolidated financial statements for all periods presented.

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY OF THE U.S. UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THOSE TO WHICH IT RELATES IN ANY STATE TO ANY PERSON TO WHOM IT IS NOT LAWFUL TO MAKE SUCH OFFER IN SUCH STATE. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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UNTIL , 1997 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING),
ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT
PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS.
THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN
ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR
SUBSCRIPTIONS.

5,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

, 1997

SMITH BARNEY INC.

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

- -----

- -----

SUBJECT TO COMPLETION, DATED JULY 10, 1997
INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A
REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE
SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY
OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES
EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE
SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES
IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR
TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

P R O S P E C T U S

5,750,000 SHARES

[LOGO]

COMMON STOCK

All of the shares of Common Stock offered hereby are being sold by QAD Inc.
("QAD" or the "Company"). Of the 5,750,000 shares of Common Stock offered
hereby, 1,150,000 shares are being offered in an international offering outside
the United States and Canada by the Managers (as defined herein) and 4,600,000
shares are being offered for sale in a concurrent offering in the United States
and Canada by the U.S. Underwriters (as defined herein) (collectively, the
"Offering").

Prior to this Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between \$12.00 and \$14.00 per share. See "Underwriting" for information relating to the factors considered in determining the initial public offering price. The Common Stock has been approved for listing on the Nasdaq National Market under the symbol "QADI."

Upon completion of the Offering, the current directors and executive officers of the Company will beneficially own approximately 71% of the outstanding Common Stock of the Company. See "Risk Factors--Control by Principal Stockholders."

SEE "RISK FACTORS" BEGINNING ON PAGE 5 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS (1)	PROCEEDS TO COMPANY (2)
Per Share	\$	\$	\$
Total (3)	\$	\$	\$

- (1) For information regarding indemnification of the Managers and the U.S. Underwriters, see "Underwriting."
- (2) Before deducting estimated offering expenses of \$1,800,000, payable by the Company.
- (3) The Company has granted the several U.S. Underwriters and the several Managers a 30-day option to purchase up to 862,500 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be \$, \$ and \$, respectively.

The shares of Common Stock are being offered by the several Managers named herein, subject to prior sale, when, as and if accepted by them and subject to certain conditions. It is expected that certificates for the shares of Common Stock offered hereby will be available for delivery on or about , 1997, at the office of Smith Barney Inc., 333 West 34th Street, New York, New York 10001.

SMITH BARNEY INC.

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER CONTAINED HEREIN, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR BY ANY OF THE MANAGERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, THOSE TO WHICH IT RELATES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS NOT LAWFUL TO MAKE SUCH OFFER IN SUCH JURISDICTION. THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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UNTIL , 1997 (25 DAYS AFTER THE COMMENCEMENT OF THE OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS MANAGERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

5,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

, 1997

SMITH BARNEY INC.
COWEN & COMPANY
ROBERTSON, STEPHENS & COMPANY

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following sets forth the estimated expenses of this offering (other than the underwriting discounts and commissions), all of which will be borne by the Registrant.

Registration Fee.....	\$ 28,054
NASD Filing Fee.....	9,758
Nasdaq Stock Market Listing Fees.....	50,000
Printing and Engraving Expenses.....	150,000
Blue Sky Fees and Expenses (including counsel fees).....	5,000
Legal Fees and Expenses.....	600,000
Consulting Fees.....	250,000
Accounting Fees and Expenses.....	175,000
Transfer Agent and Registrar Fees.....	4,500
Directors and Officers' Insurance.....	400,000
Miscellaneous.....	127,688

Total	\$1,800,000

* All amounts are estimated except for the Registration Fee, the NASD Filing Fee and the Nasdaq Stock Market Listing Fees.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under Section 145 of the General Corporate Law of the State of Delaware, the Registrant has broad powers to indemnify its directors and officers against liabilities they may incur in such capacities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). The Registrant's Bylaws (Exhibit 3.7 hereto) also provide for mandatory indemnification of its directors and executive officers, and permissive indemnification of its employees and agents, to the fullest extent currently permissible under Delaware law.

The Registrant's Certificate of Incorporation (Exhibit 3.5 hereto) limits the personal liability of its directors (in their capacity as directors but not in their capacity as officers) to the Registrant or its stockholders to the fullest extent permissible under Delaware law. Specifically, directors of the Registrant will not be personally liable for monetary damages for breach of a director's fiduciary duty, except for liability (i) for any breach of the director's duty of loyalty to the Registrant and its stockholders, (ii) for acts

or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for any transaction from which the director derived an improper personal benefit or (iv) for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law.

Prior to the effective date of the Registration Statement, the Registrant will have entered into agreements with each of its directors and executive officers that require the Registrant to indemnify such persons against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred (including expenses of a derivative action) in connection with any proceeding, whether actual or threatened, to which any such person may be made a party by reason of the fact that such person is or was a director or officer of the Registrant or any of its affiliated enterprises, provided such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Registrant and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth certain procedures that will apply in the event of a claim for indemnification thereunder.

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The Registrant intends to obtain in conjunction with the effectiveness of the Registration Statement a policy of directors' and officers' liability insurance that insures the Registrant's directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

The U.S. Underwriting Agreement and the International Underwriting Agreement, filed as Exhibit 1.1 and Exhibit 1.2, respectively, to this Registration Statement, provide for indemnification by the U.S. Underwriters and the Managers of the Registrant and its directors and officers who sign this Registration Statement for certain liabilities arising under the Securities Act or otherwise.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Set forth in chronological order below is information regarding the number of shares of capital stock issued and the number of options granted by the Registrant since January 1, 1994. Further included is the consideration, if any, received by the Registrant for such shares and options, and information relating to the section of the Securities Act or rule of the Securities and Exchange Commission under which exemption from registration was claimed. All awards of options did not involve any offer or sale under the Securities Act and therefore the issuance of such options by the Registrant was not registered under the Securities Act.

1994 STOCK OWNERSHIP PROGRAM

In 1993 the Registrant instituted its 1994 Stock Ownership Program pursuant to which it grants its employees awards of shares of Common Stock or the right to purchase limited numbers of shares of Common Stock at specified trade dates during each year at a fair market value determined by an independent appraisal. In 1994, 1995, 1996 and 1997, certain employees of the Registrant purchased or were awarded the following aggregate number of shares of the Registrant's Common Stock under the Registrant's 1994 Stock Ownership Program:

(i) in 1994 certain employees purchased an aggregate of 219,250 shares of Common Stock at purchase prices ranging from \$1.98 to \$2.53 per share and the Registrant made stock awards of 174,260 shares of Common Stock under the 1994 Stock Ownership Program to certain employees;

(ii) in 1995 certain employees purchased an aggregate of 250,400 shares of Common Stock at purchase prices ranging from \$2.21 to \$2.53 per share and the Registrant made stock awards of 228,936 shares of Common Stock under the 1994 Stock Ownership Program to certain employees;

(iii) in 1996 certain employees purchased an aggregate of 619,722 shares of Common Stock at purchase prices ranging from \$1.47 to \$2.22 per

share and the Registrant made stock awards of 519,468 shares of Common Stock under the 1994 Stock Ownership Program to certain employees; and

(iv) in 1997 certain employees purchased an aggregate of 212,850 shares of Common Stock at purchase prices ranging from \$7.94 to \$9.53 per share and in February 1997 the Registrant made stock awards of 225,576 shares of Common Stock under the 1994 Stock Ownership Program to certain employees.

No underwriters were engaged in connection with any of the foregoing offers or sales of securities. Of the shares of Common Stock purchased by employees in 1994, 1995, 1996 and 1997 as described above, 150, 650, 19,650 and 5,250 shares, respectively, were offered and sold in reliance upon the exemption from registration under Section 4(2) of the Securities Act relating to offerings and sales not involving a public offering. Of the shares of Common Stock awarded to employees in 1994, 1995, 1996 and 1997 as described above, 113,788, 78,668, 171,262 and 8,502 shares, respectively, were not offered or sold within the meaning of Section 2(3) of the Securities Act, and, therefore, were not subject to Section 5 of the

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Securities Act, and 8,600, 23,200, 166,046 and 168,500 shares, respectively, were offered and sold in reliance upon the exemption from registration under Section 4(2) of the Securities Act. The remaining shares of Common Stock purchased by or awarded to employees in the above transactions were offered and sold in reliance upon the exemption from registration under Rule 701 promulgated under the Securities Act relating to certain sales by an issuer to its employees under certain compensatory plans.

STOCK OPTION AGREEMENTS

In addition to the foregoing transactions under the 1994 Stock Ownership Program, the Registrant issued the following securities to its employees:

(i) in 1995 the Registrant issued 1,024,000 shares of Common Stock upon the exercise of outstanding stock options with exercise prices ranging from \$0.02 to \$0.39 per share;

(ii) in 1996 the Registrant issued 105,000 shares of Common Stock upon the exercise of outstanding stock options with exercise prices ranging from \$0.12 to \$0.81 per share;

(iii) in 1997 the Registrant issued 299,000 shares of Common Stock upon the exercise of outstanding stock options with exercise prices ranging from \$0.19 to \$0.39 per share; and

(iv) in 1997 the Registrant granted options to employees pursuant to stock option agreements to purchase an aggregate of 301,000 shares of Common Stock at an exercise prices ranging from \$9.53 to \$13.00 per share.

No underwriters were engaged in connection with any of the foregoing offers or sales of securities. Of the shares of Common Stock issued upon the exercise in 1997 of outstanding stock options as described above, 268,000 shares were offered and sold in reliance upon the exemption from registration under Section 4(2) of the Securities Act. The remaining shares of Common Stock issued upon the exercise in 1994, 1995, 1996 and 1997 of outstanding stock options as described above, were offered and sold in reliance upon the exemption from registration under Rule 701 promulgated under the Securities Act. Of the shares of Common Stock subject to unexercised options granted in 1997 as described above, 230,000 shares were offered in reliance upon the exemption from registration under Section 4(2) of the Securities Act. The remaining shares of Common Stock subject to unexercised options granted in 1997 as described above, were offered in reliance upon the exemption from registration under Rule 701 promulgated under the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

1.1 Form of U.S. Underwriting Agreement*

1.2 Form of International Underwriting Agreement*

3.1 Restated Articles of Incorporation of QAD Inc., a California corporation ("QAD California"), filed with the California Secretary of State on December 15, 1993*

3.2 Certificate of Amendment of QAD California filed on March 23, 1994*

3.3 Certificate of Amendment of QAD California filed on July 10, 1996*

3.4 Certificate of Amendment of QAD California filed on February 10, 1997*

3.5 Certificate of Incorporation of QAD Inc., a Delaware corporation ("QAD Delaware"), filed with the Delaware Secretary of State on May 15, 1997

3.6 Bylaws of QAD California*

3.7 Certificate of Amendment of QAD Delaware, filed with the Delaware Secretary of State on June 19, 1997

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3.8 Certificate of Merger of QAD California into QAD Delaware dated July 8, 1997

3.9 Bylaws of QAD Delaware

4.1 Specimen Stock Certificate

5.1 Opinion of Nida & Maloney, a Professional Corporation**

10.1 QAD Inc. 1994 Stock Ownership Program*

10.2 QAD Inc. 1997 Stock Incentive Program*

10.3 Form of Indemnification Agreement with Directors and Executive Officers

10.4 Loan and Security Agreement between Greyrock Business Credit, a Division of Nations Credit Commercial Corporation ("GBC") and the Registrant dated July 3, 1996*

10.5 Schedule to Loan Agreement between GBC and the Registrant dated July 3, 1996*

10.6 Letter Agreement between the Registrant and GBC dated July 3, 1996*

10.7 Letter Agreement between the Registrant and GBC dated July 5, 1996*

10.8 Letter Agreement between the Registrant and GBC dated July 5, 1996*

10.9 Secured Promissory Note in the original principal amount of \$4,000,000 made by the Registrant to the order of GBC dated July 3, 1996*

10.10 Trademark Security Agreement between GBC and the Registrant dated July 3, 1996*

10.11 Security Agreement in Copyrighted Works executed by the Registrant in favor of GBC dated July 3, 1996*

10.12 Deed of Trust with respect to real property located in Santa Barbara County, California executed by the Registrant in favor of GBC dated July 3, 1996*

10.13 Employment Offer Letter between the Registrant and Dennis R. Raney dated January 15, 1997*

10.14 Master License Agreement between the Registrant and Progress Software Corporation dated June 30, 1995+*

10.15 Lease Agreement between the Registrant and Matco Enterprises, Inc. for Suites I, K and L located at 5464 Carpinteria Ave., Carpinteria, California dated November 30,

1992

- 10.16 First Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites C and H located at 5464 Carpinteria Ave., Carpinteria, California dated September 9, 1993
- 10.17 Second Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite J located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994
- 10.18 Third Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites B and C located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994
- 10.19 Fourth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite H located at 5464 Carpinteria Ave., Carpinteria, California dated February 15, 1994
- 10.20 Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994
- 10.21 Sixth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites A, B, D, F and H, and Room A located at 5464 Carpinteria Ave., Carpinteria, California dated October 30, 1996
- 10.22 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993

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- 10.23 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993
- 10.24 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993
- 10.25 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993
- 10.26 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993
- 10.27 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993
- 10.28 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995
- 10.29 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995
- 10.30 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995
- 10.31 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995
- 10.32 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 and 2 located at 6430 Via Real, Carpinteria, California dated September 8, 1995
- 10.33 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 and 2 located at 6430 Via Real, Carpinteria, California dated September 8, 1995
- 10.34 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South

Coast Business Park for Suites 1 through 7 and 10 located at 6420 Via Real,
Carpinteria, California dated January 27, 1997

- 10.35 Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 7 and 10 located at 6420 Via Real, Carpinteria, California dated January 27, 1997
- 10.36 Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993
- 10.37 Amendment to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated April 26, 1994
- 10.38 Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995
- 10.39 Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995

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- 10.40 Agreement and Plan of Merger between QAD California and QAD Delaware dated July 8, 1997
- 21.1 Subsidiaries of the Registrant*
- 23.1 Consent of KPMG Peat Marwick LLP and opinion on Schedule II
- 23.2 Consent of Nida & Maloney, a Professional Corporation (included in Exhibit 5.1)**
- 24.1 Power of Attorney*
- 24.2 Authorizing Resolutions
- 27.1 Financial Data Schedule*

- -----

* Previously filed.

** To be filed by amendment.

+ Confidential treatment is being requested.

(b) Financial Statement Schedules

Schedule II--Valuation and Qualifying Accounts

All other schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes:

- (a) To provide to the underwriter at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

- (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under Item 14 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.
- (c) (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 403(a) and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 1 to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Carpinteria, California, on July 10, 1997.

QAD INC.

By: /s/ DENNIS R. RANEY

Dennis R. Raney
Senior Vice President, Finance and
Administration
and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 1 to Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
-----	-----	-----
PAMELA M. LOPKER*	Chairman of the Board and President (Principal Executive	July 10, 1997

Pamela M. Lopker Officer)

KARL F. LOPKER*

- ----- Director and Chief July 10, 1997
Karl F. Lopker Executive Officer

EVAN M. BISHOP*

- ----- Director July 10, 1997
Evan M. Bishop

Senior Vice President,
Finance and
Administration and Chief
Financial Officer
(Principal Financial and
Accounting Officer)

/s/ DENNIS R. RANEY

- ----- Financial Officer July 10, 1997
Dennis R. Raney

*By: /s/ DENNIS R. RANEY

Dennis R. Raney
Attorney-in-fact

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SCHEDULE II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DELETIONS (1)	ADJUSTMENTS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts and sales returns					
Year ended:					
December 31, 1994.....	\$ 2,108	\$ 1,333	\$ (964)	\$ 51	\$ 2,528
December 31, 1995.....	2,528	945	(1,209)	34	2,298
January 31, 1997.....	2,280	3,432	(1,983)	(35)	3,694
One month ended:					
January 31, 1996.....	2,298	(25)	--	7	2,280
Three months ended:					
April 30, 1996 (unaudited).....	2,280	701	(684)	(16)	2,281
April 30, 1997 (unaudited).....	3,694	585	(524)	(109)	3,646

(1) Actual write-offs and product returns.

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EXHIBIT INDEX

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3.8	Certificate of Merger of QAD California into QAD Delaware dated July 8, 1997.....	F
3.9	Bylaws of QAD Delaware.....	F
4.1	Specimen Stock Certificate.....	F
5.1	Opinion of Nida & Maloney, a Professional Corporation.....	**
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23.2	Consent of Nida & Maloney, a Professional Corporation (included in Exhibit 5.1).....	**
24.1	Power of Attorney.....	*
24.2	Authorizing Resolutions.....	F
27.1	Financial Data Schedule.....	*

* Previously filed.

** To be filed by amendment.

+ Confidential treatment is being requested.

CERTIFICATE OF INCORPORATION

OF

QAD INC.

The undersigned, for the purpose of organizing a corporation under the General Corporation Law of the State of Delaware, certifies:

FIRST: The name of the corporation is QAD Inc. (hereinafter referred to as the "CORPORATION").

SECOND: The address of the Corporation's registered office in the State of Delaware is The Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (hereinafter referred to as the "GCL").

FOURTH: Unless and until the Automatic Conversion (as defined in SECTION B(1)(f)(ii) of this ARTICLE FOURTH) occurs, the Corporation is authorized to issue two classes of shares of common stock and one class of preferred stock. The total number of shares of stock which the Corporation shall have authority to issue is twenty million one-hundred thousand (20,100,000) shares, consisting of twenty million (20,000,000) shares of common stock, par value \$.001 per share (the "COMMON STOCK") and one hundred thousand (100,000) shares of preferred stock, par value \$.001 per share (the "PREFERRED STOCK"). Unless and until the Automatic Conversion occurs, the only shares of Common Stock which the Corporation shall have authority to issue is nineteen million nine hundred thousand nine hundred (19,999,900) shares of Class A Common Stock, par value \$.001 per share (the "CLASS A COMMON STOCK") and one hundred (100) shares of Class B Common Stock, par value \$.001 per share (the "CLASS B COMMON STOCK"). Upon and after the Automatic Conversion, the Corporation shall be authorized to issue one class of Common Stock, consisting of twenty million (20,000,000) shares designated as Common Stock, and one class of Preferred Stock, consisting of one hundred thousand (100,000) shares designated as Preferred Stock. The term "COMMON STOCK" shall refer to the Class A Common Stock and the Class B Common Stock, collectively, unless and until the Automatic Conversion occurs, and to the Common Stock upon and after the Automatic Conversion.

A. PREFERRED STOCK. The Board of Directors of the Corporation (hereinafter referred to as the "BOARD OF DIRECTORS") is hereby expressly authorized at any time, and from time to time, to create and provide for the issuance of shares of

Preferred Stock in one or more series and, by filing a certificate pursuant to the GCL (hereinafter referred to as a "PREFERRED STOCK DESIGNATION"), to establish the number of shares to be included in each such series, and to fix the designations, preferences and relative, participating, optional or other special rights of the shares of each such series and the qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors, including, but not limited to, the following:

1. the number of shares of any series and the designation to distinguish the shares of such series from the shares of all other series;
2. whether dividends, if any, shall be cumulative or noncumulative, the dividend rate of such series, and the dates and preferences of

dividends on such series;

3. the redemption provisions, if any, applicable to such series, including the redemption price or prices to be paid;

4. the terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series;

5. whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes of, any other series of any class or classes of capital stock of, or any other security of, the Corporation or any other corporation, and, if provision be made for any such conversion or exchange, the times, prices, rates, adjustments and any other terms and conditions of such conversion or exchange;

6. the voting powers, if any, and whether such voting powers are full or limited in such series;

7. the restrictions, if any, on the issue or reissue of shares of the same series or of any other class or series;

8. the amounts payable on and the preferences, if any, of the shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation; and

9. any other relative rights, preferences and limitations of that series.

B. COMMON STOCK. The Common Stock shall be subject to the express terms of any series of Preferred Stock set forth in the Preferred Stock Designation relating thereto. Each holder of Common Stock shall have one vote in respect of each share of Common Stock held by such holder of record on the books of the Corporation for the election of directors and on all other

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matters on which stockholders of the Corporation are entitled to vote. The holders of shares of Common Stock shall be entitled to receive, when and if declared by the Board of Directors, out of the assets of the Corporation which are by law available therefor, dividends payable either in cash, in stock or otherwise. In addition, the Class A Common Stock shall be subject to the express restrictions set forth below in this SECTION B.

1. RESTRICTIONS ON CLASS A COMMON STOCK.

a. CORPORATION'S RIGHT TO REPURCHASE UPON TERMINATION OF AFFILIATION. All shares of Class A Common Stock held of record by a person who is an employee or director of, or a consultant to, the Corporation or any of its subsidiaries shall be subject to the Corporation's right to repurchase all of such shares in the event that such holder's affiliation with the Corporation as an employee, director or consultant is terminated. Such right of repurchase upon termination of affiliation shall also be applicable to all shares of Class A Common Stock which such person has the right to acquire subsequent to his or her termination of affiliation pursuant to any of the Corporation's employee benefit plans or pursuant to any option or other contractual right to acquire shares of Class A Common Stock in effect at the date of such termination of affiliation. An authorized leave of absence approved in accordance with the Corporation's policy from time to time in effect shall not constitute a termination of affiliation for purposes of this PARAGRAPH (a); PROVIDED, HOWEVER, that the issuance of a formal personnel action notice by the Corporation's personnel department advising an employee that his or her leave of absence is terminated shall constitute a termination of affiliation for purposes of this PARAGRAPH (a). The Corporation's right of repurchase shall be exercised by mailing written notice to such holder at his or her address of

record on the Corporation's stock record books within ninety (90) days following the termination of such affiliation, which notice shall request delivery of certificates representing the shares of Class A Common Stock, duly endorsed in blank or to the Corporation, free and clear of all liens, claims, charges and encumbrances of any kind whatsoever. If the Corporation repurchases such shares, the price shall be the higher of (i) the original purchase price paid for such shares by such holder if such shares were acquired from the Corporation by such holder or (ii) the Formula Price (as hereinafter defined) per share on (x) the date of such termination of affiliation, in the case of either shares owned by the holder at that date or shares issuable to such holder subsequent to the date of termination of affiliation pursuant to any option or other contractual right to acquire shares of Class A Common Stock which were outstanding at that date, or (y) the date such shares are distributed to such holder, in the case of shares distributable to such holder subsequent to his or her termination of affiliation pursuant to any of the

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Corporation's employee benefit plans. For purposes of the foregoing sentence, an adjustment shall be made to the original purchase price paid for such shares to account for any changes in the capitalization of the Company, as determined by the Board of Directors. If for any reason the Corporation is unable to make payment directly to a holder, then the Corporation may make such payment by depositing the purchase price in an account for the benefit of such holder and such shares of Class A Common Stock shall thereby be deemed to have been transferred to the Corporation on the date cash payment is made and no longer outstanding and all rights of the holder with respect to such shares terminated.

b. CORPORATION'S RIGHT OF FIRST REFUSAL. If at any time a holder of Class A Common Stock receives a bona fide offer to purchase such shares and desires to sell any of such shares (other than through the limited market maintained by the Corporation), such holder shall first give notice to the Secretary of the Corporation containing:

(i) A statement signed by such holder notifying the Corporation that such holder desires to sell shares of Class A Common Stock and has received a bona fide offer to purchase such shares.

(ii) A statement signed by the intended purchaser containing:

(a) the intended purchaser's full name, address and taxpayer identification number;

(b) the number of shares to be purchased;

(c) the price per share to be paid;

(d) other terms under which the purchase is intended to be made; and

(e) a representation that the offer, under the terms specified, is bona fide.

(iii) If the purchase price is payable in cash, in whole or in part, a copy of a certified check, cashier's check or money order payable to such holder from the purchaser in the aggregate amount of the purchase price which is to be paid in cash.

The Corporation shall thereupon have an option exercisable within fourteen (14) days of receipt of such notice by the Secretary to purchase all, but not less than all, of the shares specified in the notice at the lesser of (a) the Formula Price (as hereinafter defined) per share

following receipt of the notice from the holder, or (b) the offer price and upon the same terms as set forth in the notice, accompanied by payment of the purchase price; PROVIDED, HOWEVER, that if the offer price is payable, in whole or in part, other than in cash, the Corporation shall pay the equivalent value of any noncash consideration as mutually agreed upon between the holder and the Corporation. Such option shall be exercised by the Corporation by mailing written notice to such holder at his or her address of record on the Corporation's stock record books. In the event the Corporation does not exercise such option, such holder may sell the shares specified in the notice within thirty (30) days thereafter to the purchaser, at the price and upon the terms and conditions set forth therein. The holder may not sell such shares to any other purchaser, or at any different price, or on any different terms, without first reoffering such shares to the Corporation.

c. ELECTION OF RIGHTS BY CORPORATION. In the event circumstances shall occur which would ordinarily permit the Corporation to exercise its rights under either PARAGRAPHS (a) OR (b) of this SUBSECTION 1 at the time when the Corporation's rights under the other subparagraph have become and remain exercisable, the Corporation, by resolution of its Board of Directors, acting in its sole discretion, may elect which of such rights it shall exercise. The Board of Directors may designate one or more nominees to purchase any shares of Class A Common Stock which it has the right to purchase in lieu of purchasing such shares itself.

d. OTHER TRANSFERS. Except for the sales in the limited market maintained by the Corporation and as provided in PARAGRAPHS (a) OR (b) of this SUBSECTION 1, no holder of shares of Class A Common Stock may sell, assign, pledge, transfer or otherwise dispose of or encumber any shares of Class A Common Stock without the prior written approval of the Corporation, and any attempt to so sell, assign, pledge, transfer or otherwise dispose of or encumber such shares without such prior approval shall be null and void. The Corporation is expressly authorized to condition its approval of a transfer (other than by sale) of any shares of Class A Common Stock by an employee or director of, or a consultant to, the Corporation or by a person who acquired such shares other than by purchase, directly or indirectly, from an employee or director of, or a consultant to, the Corporation upon the transferee's agreement to hold such shares subject to the Corporation's right to repurchase such shares pursuant to PARAGRAPH (A) of this SUBSECTION 1 upon the termination of affiliation of the employee, director or consultant.

e. DEFINITION OF FORMULA PRICE. As used in this Certificate of Incorporation, the term "Formula Price" shall mean the price, as determined in good faith, pursuant to the formula adopted by the Board of Directors of the

Corporation for the purpose of determining the fair market value of one (1) share of the Corporation's Class A Common Stock, as such formula may be modified from time to time by the Board of Directors.

f. LAPSE OR WAIVER OF RESTRICTIONS ON CLASS A COMMON STOCK; CONVERSION UPON LAPSE.

(i) LAPSE. All restrictions upon the shares of Class A Common Stock set forth in this SUBSECTION 1 shall automatically lapse and be of no further force or effect if:

(a) the Corporation has declared effective by the United States Securities and Exchange Commission a registration statement (other than a registration statement on Form S-4 or Form S-8 or other similar form) to effect an underwritten offering of any class or series of its capital stock (or any securities convertible into shares of capital stock) to the general public; or

(b) the Corporation's application to have any class or series of its capital stock (or any securities convertible into shares of capital stock) listed on a national securities exchange or quoted on The Nasdaq Stock Market is approved.

(ii) AUTOMATIC CONVERSION. Upon the lapse of the restrictions on the shares of Class A Common Stock as provided in SUBPARAGRAPH (f)(i) above, each authorized share of Class A Common Stock and each authorized share of Class B Common Stock shall automatically convert into shares of the single class of common stock of the Corporation designated as Common Stock on a one-for-one basis (the "AUTOMATIC CONVERSION"). Shares of Common Stock shall not be subject to any restrictions other than such restrictions generally applicable to the Common Stock pursuant to the first paragraph of this SECTION B of ARTICLE FOURTH.

(iii) WAIVER. The Corporation may, by resolution of its Board of Directors, acting in its sole discretion, waive any or all of the restrictions upon the shares of Class A Common Stock set forth in this SUBSECTION 1 in such circumstances as the Board of Directors deems appropriate, and such waiver may be effective as to any or all of the shares of Class A Common Stock, or as to any or all of the holders thereof.

2. RESTRICTIONS ON CLASS B COMMON STOCK. The Class B Common Stock shall not be subject to any restrictions other

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than such restrictions generally applicable to the Common Stock pursuant to the first paragraph of SECTION B of ARTICLE FOURTH. If at any time the restrictions on the Class A Common Stock set forth in SUBSECTION 1 of this SECTION B shall lapse as provided in SUBPARAGRAPH (f)(i) of SUBSECTION 1, each authorized share of Class B Common Stock shall automatically convert on a one-for-one basis into a share of Common Stock. Shares of Common Stock shall not be subject to any restrictions other than such restrictions generally applicable to the Common Stock pursuant to the first paragraph of SECTION B of ARTICLE FOURTH.

FIFTH: A. In furtherance, and not in limitation, of the powers conferred by law, the Board of Directors is expressly authorized and empowered:

1. to adopt, amend or repeal the Bylaws of the Corporation, PROVIDED, HOWEVER, that any Bylaws adopted by the Board of Directors under the powers hereby conferred may be amended or repealed by the Board of Directors or by the stockholders having voting power with respect thereto; and

2. from time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Corporation, or any of them, shall be open to inspection of stockholders; and, except as so determined, or as expressly provided in this Certificate of Incorporation or in any Preferred Stock Designation, no stockholder shall have any right to inspect any account, book or document of the Corporation other than such rights as may be

conferred by law.

B. The Corporation may in its Bylaws confer powers upon the Board of Directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon the Board of Directors by law.

SIXTH: A. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Certificate of Incorporation to elect additional directors under specified circumstances, the number of directors of the Corporation shall not be less than 3 nor more than 9 and shall be fixed from time to time in the manner described in the Bylaws.

B. Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

C. The directors, other than those who may be elected by the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Certificate of Incorporation, shall be classified with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible, and designated as Class I, Class II

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and Class III, at the first annual meeting of stockholders when the Corporation shall have at least 800 stockholders as determined under Section 2115 of the California Corporations Code (hereinafter, the "FIRST MEETING"). The Directors first appointed to Class I at the First Meeting shall hold office for a term expiring at the annual meeting of the stockholders immediately following the First Meeting; the Directors first appointed to Class II shall hold office for a term expiring at the second annual meeting of the stockholders following the First Meeting; and the Directors first appointed to Class III shall hold office for a term expiring at the third annual meeting of the stockholders following the First Meeting. Members of each class shall hold office until their successors are elected and qualified. Thereafter, at each succeeding annual meeting of the stockholders of the Corporation, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election, and until their successors are elected and qualified. Notwithstanding the foregoing, if at the time of any annual meeting of stockholders, the Corporation is prohibited by applicable law from having a classified Board of Directors, all of the Directors shall be elected at such annual meeting for a one year term only. If at the time of any subsequent annual meeting of stockholders the Corporation is no longer prohibited by applicable law from having a classified Board of Directors, the Board of Directors shall again be classified in accordance with the first sentence of this paragraph, and at such annual meeting Directors initially elected shall be elected to serve in either Class I, Class II or Class III to hold office for a term expiring at the first, second or third succeeding annual meeting of the stockholders, respectively; thereafter successors to each Class shall be elected in the accordance with the fourth sentence of this paragraph.

D. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Certificate of Incorporation to elect additional directors under specified circumstances, any director may be removed from office at any time for cause by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding Voting Stock, voting together as a single class. For the purposes of this Certificate of Incorporation, "VOTING STOCK" shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

E. Advance notice of stockholder nominations for the election of

directors shall be given in the manner provided in the Bylaws of the Corporation.

F. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Certificate of Incorporation to elect additional directors under specified circumstances, vacancies resulting from death, resignation, retirement, disqualification, removal from

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office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the total number of directors which the Corporation would at the time have if there were no vacancies shall shorten the term of any incumbent director.

SEVENTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. No amendment or repeal of this ARTICLE SEVENTH shall adversely affect any right or protection of a director of the Corporation existing hereunder in respect of any act or omission occurring prior to such amendment or repeal.

EIGHTH: Except as may be expressly provided below in this ARTICLE EIGHTH, the Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation or a Preferred Stock Designation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed herein or by law, and all powers, preferences and rights of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this ARTICLE EIGHTH; PROVIDED, HOWEVER, that no Preferred Stock Designation shall be amended after the issuance of any shares of the series of Preferred Stock created thereby, except in accordance with the terms of such Preferred Stock Designation and the requirements of law; AND PROVIDED, FURTHER, that the affirmative vote of at least 66-2/3 percent of the voting power of the then outstanding Voting Stock, voting together as a single class, shall be required to amend, repeal or adopt any provision inconsistent with the provisions of ARTICLE FIFTH, ARTICLE SIXTH or ARTICLE EIGHTH of this Certificate of Incorporation, unless such amendments or changes are approved by a majority of the directors of the Corporation not affiliated or associated with any person, other than Pamela M. Lopker or Karl F. Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power of the then outstanding Voting Stock, voting together as a single class.

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NINTH: The name and mailing address of the incorporator is Melainie K. Mansfield, Milbank, Tweed, Hadley & McCloy, 600 S. Figueroa St., Los Angeles, California 90017.

WITNESS my signature this 15th day of May, 1997.

/s/ Melainie Mansfield

Sole Incorporator

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF
QAD INC.

QAD Inc., a Delaware corporation (the "Corporation"), CERTIFIES:

FIRST: The Corporation has not received any payment for any of its capital stock.

SECOND: Directors of said Corporation were not named in its Certificate of Incorporation and have not yet been elected as of the date hereof.

THIRD: The amendment set forth below to the Certificate of Incorporation of the Corporation has been duly adopted by its Sole Incorporator in accordance with the provisions of Section 241 of the General Corporation Law of the State of Delaware.

A. The Preamble to Article FOURTH, which precedes Section A of same Article, of the Corporation's Certificate of Incorporation is hereby amended and replaced in full by the following:

"FOURTH: Unless and until the Automatic Conversion (as defined in SECTION B(1)(f)(ii) of this ARTICLE FOURTH) occurs, the Corporation is authorized to issue two classes of shares of common stock and one class of preferred stock. The total number of shares of stock which the Corporation shall have authority to issue is one hundred fifty-five million (155,000,000) shares, consisting of one hundred fifty million (150,000,000) shares of common stock, par value \$.001 per share (the "COMMON STOCK") and five million (5,000,000) shares of preferred stock, par value \$.001 per share (the "PREFERRED STOCK"). Unless and until the Automatic Conversion occurs, the only shares of Common Stock which the Corporation shall have authority to issue is one hundred forty-nine million (149,000,000) shares of Class A Common Stock, par value \$.001 per share (the "CLASS A COMMON STOCK") and one million (1,000,000) shares of Class B Common Stock, par value \$.001 per share (the "CLASS B COMMON STOCK"). Upon and after the Automatic Conversion, the Corporation shall be authorized to issue one class of Common Stock, consisting of one hundred fifty million (150,000,000) shares designated as Common Stock, and one class of Preferred Stock, consisting of five million (5,000,000) shares designated as Preferred Stock. The term "COMMON STOCK" shall refer to the Class A Common Stock and the Class B Common Stock, collectively, unless and until the Automatic Conversion occurs, and to the Common Stock upon and after the Automatic Conversion."

B. Section D of Article SIXTH of the Corporation's Certificate of Incorporation is hereby amended to read as follows:

"D. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Certificate of Incorporation to elect additional directors under specified circumstances, any director may be removed from office at any time with or without cause by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding Voting Stock, voting together as a single class. For the purposes of this Certificate of Incorporation, "VOTING STOCK" shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors."

IN WITNESS THEREOF, QAD Inc. has caused this Certificate of Amendment to be executed by its Sole Incorporator this Nineteenth day of June, 1997.

QAD Inc., A Delaware Corporation

By: /s/ Melainie K. Mansfield

Melainie K. Mansfield
Sole Incorporator

CERTIFICATE OF MERGER OF
QAD INC., A CALIFORNIA CORPORATION
INTO
QAD INC., A DELAWARE CORPORATION
(UNDER SECTION 252 OF THE GENERAL
CORPORATION LAW OF THE STATE OF DELAWARE)

QAD Inc., a Delaware corporation, hereby certifies that:

(1) The name and state of incorporation of each of the constituent corporations are:

(a) QAD Inc., a California corporation ("QAD-California"); and

(b) QAD Inc., a Delaware corporation ("QAD-Delaware").

(2) An Agreement and Plan of Merger has been approved, adopted, certified, executed and acknowledged by QAD-California and by QAD-Delaware in accordance with the provisions of subsection (c) of Section 252 of the General Corporation Law of the State of Delaware.

(3) The name of the surviving corporation is QAD Inc., a Delaware corporation.

(4) The certificate of incorporation of QAD-Delaware shall be the certificate of incorporation of the surviving corporation.

(5) The surviving corporation is a corporation of the State of Delaware.

(6) The executed Agreement and Plan of Merger is on file at the principal place of business of QAD-Delaware at 6450 Via Real, Carpinteria, California 93013.

(7) A copy of the Agreement and Plan of Merger will be furnished by QAD-Delaware, on request and without cost, to any stockholder of QAD-California or QAD-Delaware.

(8) The authorized capital stock of QAD-California, as of the date hereof, consists of 155,000,000 shares consisting of 149,000,000 shares of Class A Common Stock, no par value per share, of which 22,524,234 shares are issued and outstanding; 1,000,000 shares of Class B Common Stock, no par value per share, of which four shares are issued and outstanding; and 5,000,000 shares of Preferred Stock, no par value per share, of which none are issued and outstanding.

IN WITNESS WHEREOF, QAD-Delaware has caused this certificate to be signed by Pamela M. Lopker, in her capacity as its President, and attested by Karl F. Lopker, in his capacity as its Secretary, on the 8th day of July, 1997.

QAD Inc., a Delaware corporation

By: /s/ Pamela M. Lopker

Pamela M. Lopker
President

ATTEST:

By: /s/ Karl F. Lopker

Karl F. Lopker
Secretary

BYLAWS

OF

QAD INC.

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BYLAWS
OF
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ARTICLE I

OFFICE AND RECORDS

SECTION 1.1 DELAWARE OFFICE. The principal office of the Corporation in the State of Delaware shall be located in the City of Wilmington, County of New Castle, and the name and address of its registered agent is The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware.

SECTION 1.2 OTHER OFFICES. The Corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the Corporation may from time to time require.

SECTION 1.3 BOOKS AND RECORDS. The books and records of the Corporation may be kept at the Corporation's principal executive offices in Carpinteria, California or at such other locations inside or outside the State of Delaware as may from time to time be designated by the Board of Directors. Any stockholder, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the Corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. The demand under oath shall be directed to the Corporation's Secretary at its registered Delaware office or at its principal place of business.

ARTICLE II

STOCKHOLDERS

SECTION 2.1 ANNUAL MEETING. The annual meeting of stockholders of the Corporation shall be held on the date designated by the Board of Directors; PROVIDED, HOWEVER, that the annual meeting of stockholders of this Corporation shall be held (i) in the case of the initial annual meeting of stockholders, not later than 13 months after the date of incorporation of this Corporation or (ii) in the case of any subsequent annual meeting of stockholders, not later than 13 months after the date of the last annual meeting of stockholders of the Corporation. The annual meeting in each year shall be held at 10:00 A.M., local time, at the principal executive offices of the Corporation, or at such other date, time and/or place within or without the State of Delaware as may be fixed by the Board of Directors.

SECTION 2.2 SPECIAL MEETINGS. Subject to the rights of the holders of any series of preferred stock, par value \$.001 per share, of the Corporation

(the "PREFERRED STOCK"), or any other series or class of stock as set forth in the Certificate of Incorporation of the Corporation (the "CERTIFICATE OF INCORPORATION") to elect additional directors under specified circumstances, a special meeting of the holders of stock of the Corporation entitled to vote on any business to be considered at any such meeting may be called by the President of the Corporation, the Chief Executive Officer of the Corporation or the Chairman of the Board of the Corporation, or shall be called by the Secretary of the Corporation at the request of the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors of the Corporation or at the request of the holders of ten percent (10%) or more of the outstanding voting stock of the Corporation. The Board of Directors may designate the place of meeting for any special meeting of the stockholders, and if no such designation is made, the place of meeting shall be the principal executive offices of the Corporation.

SECTION 2.3 NOTICE OF MEETINGS. Whenever stockholders are required or permitted to take any action at a meeting, unless notice is waived as provided in Section 8.1 of these Bylaws, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Unless otherwise provided by law, and except as to any stockholder duly waiving notice, the written notice of any meeting shall be given personally or by mail, not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the Corporation. Any previously scheduled meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If, however, the adjournment is for more than

thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 2.4 QUORUM. Except as otherwise provided by law or by the Certificate of Incorporation or by these Bylaws, at any meeting of stockholders the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "VOTING STOCK"), either present or represented by proxy, shall constitute a quorum for the transaction of any business at such meeting, except that when specified business is to be voted on by a class or series voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such business. The chairman of the meeting or a majority of the voting power of the shares of Voting Stock so represented may adjourn the meeting from time to time, whether or not there is such a quorum (or in the case of specified business to be voted on as a class or series, the chairman or a majority of the shares of such class or series so represented may adjourn the meeting with respect to such specified business). No notice of the time and place of adjourned meetings need be given except as provided in the last paragraph of Section 2.3 of these Bylaws. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 2.5 VOTING. Except as otherwise set forth in the Certificate

of Incorporation with respect to the right of any holder of any series of Preferred Stock or any other series or class of stock to elect additional directors under specified circumstances, whenever directors are to be elected at a meeting, they shall be elected by a plurality of the votes cast at the meeting by the holders of stock entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of stockholders at a meeting, it shall, except as otherwise required by law or by the Certificate of Incorporation or by these Bylaws, be authorized by a majority of the votes cast with respect thereto at the meeting (including abstentions) by the holders of stock entitled to vote thereon.

Except as otherwise provided by law, or by the Certificate of Incorporation, each holder of record of stock of the Corporation entitled to vote on any matter at any meeting of stockholders shall be entitled to one vote for each share of such stock standing in the name of such holder on the stock ledger of

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the Corporation on the record date for the determination of the stockholders entitled to vote at the meeting.

Upon the demand of any stockholder entitled to vote, the vote for directors or the vote on any other matter at a meeting shall be by written ballot, but otherwise the method of voting and the manner in which votes are counted shall be discretionary with the presiding officer at the meeting.

SECTION 2.6 PROXIES. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Every proxy shall be signed by the stockholder or by his duly authorized attorney. Such proxy must be filed with the Secretary of the Corporation or his or her representative at or before the time of the meeting.

SECTION 2.7 NOTICE OF STOCKHOLDER BUSINESS AND NOMINATIONS.

(A) ANNUAL MEETING OF STOCKHOLDERS.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) by or at the direction of the Chairman of the Board or the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors or (b) by any stockholder of the Corporation who is entitled to vote at the meeting with respect to the election of directors or the business to be proposed by such stockholder, as the case may be, who complies with the notice procedures set forth in clauses (2) and (3) of paragraph (A) of this Section 2.7 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (b) of paragraph (A) (1) of this Section 2.7, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law (the "GCL"). To be timely, a stockholder's notice shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not less than ninety (90) days prior to the first anniversary of the preceding year's annual meeting; PROVIDED, HOWEVER, that in the event that

the date of the annual meeting is advanced by more than thirty (30) days, or delayed by more than sixty (60) days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the one hundred and twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 2.7 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty (80) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by paragraph (A)(2) of this Section 2.7 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(B) SPECIAL MEETING OF STOCKHOLDERS. Nominations of persons for election to the Board of Directors may be made at a

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special meeting of stockholders at which directors are to be elected (i) by or at the direction of the Chairman of the Board of the Corporation or the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote at the meeting with respect to the election of directors, who complies with the notice procedures set forth in this paragraph (B) and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (A)(2) of this Section 2.7 shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) GENERAL. (1) Only persons who are nominated in accordance with the procedures set forth in this Section 2.7 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures

set forth in this Section 2.7.

(2) Except as otherwise provided by law, the Certificate of Incorporation or this Section 2.7, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.7 and, if any proposed nomination or business is not in compliance with this Section 2.7, to declare that such defective nomination or proposal shall be disregarded.

(3) For purposes of this Section 2.7, "PUBLIC ANNOUNCEMENT" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 2.7, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.7. Nothing in this Section 2.7 shall be deemed to

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affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy materials with respect to a meeting of stockholders pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect directors under specified circumstances or to consent to specific actions taken by the Corporation.

SECTION 2.8 INSPECTORS OF ELECTIONS; OPENING AND CLOSING THE POLLS.

(A) The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of his or her ability. The inspectors shall have the duties prescribed by the GCL.

(B) The chairman of the meeting shall fix and announce at the meeting the time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting.

SECTION 2.9 LIST OF STOCKHOLDERS. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the

meeting during the whole time thereof, and may be inspected by any stockholder who is present.

The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this Section or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

SECTION 2.10 WRITTEN CONSENT OF STOCKHOLDERS IN LIEU OF MEETING. Any action required by the GCL to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt written notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Any such written consent may be given by one or any number of substantially concurrent written instruments of substantially similar tenor signed by such stockholders, in person or by attorney or proxy duly appointed in writing, and filed with the Secretary or an Assistant Secretary of the Corporation. Any such written consent shall be effective as of the effective date thereof as specified therein, provided that such date is not more than sixty (60) days prior to the date such written consent is filed as aforesaid, or, if no such date is so specified, on the date such written consent is filed as aforesaid.

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ARTICLE III

DIRECTORS

SECTION 3.1 GENERAL POWERS. The business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these Bylaws required to be exercised or done by the stockholders.

SECTION 3.2 NUMBER, TENURE AND QUALIFICATIONS. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Board of Directors, but shall consist of not more than nine (9) nor less than three (3) directors.

The directors, other than those who may be elected by the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation, shall be classified with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible, and designated as Class I, Class II and Class III, at the first annual meeting of stockholders when the Corporation shall have at least 800 stockholders as determined under Section 2115 of the California Corporations Code (hereinafter, the "FIRST MEETING"). The Directors first appointed to Class I at the First Meeting shall hold office for a term expiring at the annual meeting of the stockholders immediately following the First Meeting; the Directors first appointed to Class II shall hold office for a term expiring at the second annual meeting of the stockholders following the First Meeting; and the Directors first appointed to Class III shall hold office for a term expiring at the third annual meeting of the stockholders following the First Meeting.

Members of each class shall hold office until their successors are elected and qualified. Thereafter, at each succeeding annual meeting of the stockholders of the Corporation, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election, and until their successors are elected and qualified. Notwithstanding the foregoing, if at the time of any annual

meeting of stockholders, the corporation is prohibited by applicable law from having a classified Board of Directors, all of the Directors shall be elected at such annual meeting for a one year term only. If at the time of any subsequent annual meeting of stockholders the Corporation is no longer prohibited by applicable law from having a classified Board of Directors, the Board of Directors shall again be classified in accordance with the first sentence of this paragraph, and at such annual meeting Directors initially elected shall be elected to serve in either Class I, Class II or Class III to hold office for a term expiring at the first, second or third succeeding annual meeting of the stockholders, respectively; thereafter successors to each Class shall be elected in the accordance with the fourth sentence of this paragraph.

SECTION 3.3 VACANCIES AND NEWLY CREATED DIRECTORSHIPS. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect additional directors under specified circumstances, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, though less than a quorum of the Board of Directors, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Board of Directors shall shorten the term of any incumbent director.

SECTION 3.4 RESIGNATION. Any director may resign at any time upon written notice to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

SECTION 3.5 REMOVAL. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect additional directors under specified circumstances, any director may be removed from office at any time with or without cause, by the affirmative vote of the holders of at least a

majority of the voting power of the then outstanding Voting Stock, voting together as a single class.

SECTION 3.6 MEETINGS. Meetings of the Board of Directors, regular or special, may be held at any place within or without the State of Delaware. Members of the Board of Directors, or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. An annual meeting of the Board of Directors shall be held at

the same place and immediately following each annual meeting of stockholders, and no further notice thereof need be given other than this Bylaw. The Board of Directors may fix times and places for additional regular meetings of the Board of Directors and no further notice of such meetings need be given. A special meeting of the Board of Directors shall be held whenever called by the President of the Corporation, the Chief Executive Officer of the Corporation or the Chairman of the Board of the Corporation, or by a majority of the Board of Directors, at such time and place as shall be specified in the notice or waiver thereof. The person or persons authorized to call special meeting of the Board of Directors may fix the place and time of the meetings. Notice of any special meeting shall be given to each director at his or her business or residence in writing or by telegram or by telephone communication. If mailed, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least five (5) days before such meeting. If by telegram, such notice shall be deemed adequately delivered when the telegram is delivered to the telegraph company at least twenty-four hours before such meeting. If by facsimile transmission, such notice shall be transmitted at least twenty-four hours before such meeting. If by telephone, the notice shall be given at least twelve hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting, except for amendments to these Bylaws as provided under Section 10.1 of these Bylaws.

SECTION 3.7 QUORUM AND VOTING. A whole number of directors equal to at least a majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if there be less than a quorum, a majority of the directors present may adjourn the

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meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Certificate of Incorporation, or by these Bylaws, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 3.8 WRITTEN CONSENT OF DIRECTORS IN LIEU OF A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

SECTION 3.9 COMPENSATION. Directors may receive compensation for services to the Corporation in their capacities as directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board of Directors.

SECTION 3.10 COMMITTEES OF THE BOARD OF DIRECTORS. The Board of Directors may from time to time, by resolution passed by majority of the Board of Directors, designate one or more committees, each committee to consist of one or more directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The resolution of the Board of Directors may, in addition or alternatively, provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to

all papers which may require it, except as otherwise provided by law. Unless the resolution of the Board of Directors expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Any such committee may adopt rules governing the method of calling and time and place of holding its meetings. Unless otherwise provided by the Board of Directors, a majority of any such committee (or the member thereof, if only one) shall

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constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each such committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any or all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passed by a majority of the Board of Directors.

ARTICLE IV

OFFICERS

SECTION 4.1 ELECTED OFFICERS. The elected officers of the Corporation shall be a Chairman of the Board, a President, a Secretary and a Treasurer, and may also include one or more Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers. All officers chosen by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV, together with such other powers and duties as from time to time may be conferred by the Board of Directors or any committee thereof. The Chairman of the Board shall be chosen from among the directors. Any number of such offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may appoint, and may delegate power to appoint, such other officers, agents and employees as it may deem necessary or proper, who shall hold their offices or positions for such terms, have such authority and perform such duties as may from time to time be determined by or pursuant to authorization of the Board of Directors.

SECTION 4.2 ELECTION AND TERM OF OFFICE. The elected officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Subject to Section 4.3 of these Bylaws, each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death or until such officer shall resign.

SECTION 4.3 RESIGNATION AND REMOVAL. Any officer may resign at any time upon written notice to the Corporation. Any

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elected officer may be removed by a majority of the members of the Board of Directors, with or without cause, at any time. The Board of Directors may delegate such power of removal as to officers, agents and employees not elected by the Board of Directors. Such removal shall be without prejudice to a person's contract rights, if any, but the appointment of any person as an officer, agent or employee of the Corporation shall not of itself create contract rights.

SECTION 4.4 COMPENSATION AND BOND. The compensation of the officers

of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer in respect of other officers under his or her control. The Corporation may secure the fidelity of any or all of its officers, agents or employees by bond or otherwise.

SECTION 4.5 CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of stockholders and of the Board of Directors. The Chairman of the Board shall be responsible for the general management of the affairs of the Corporation, shall make reports to the Board of Directors and the stockholders and shall perform all duties incidental to such office which may be required by law and all such other duties as are properly required by the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board shall possess the same power as the President to sign all certificates, contracts and other instruments of the Corporation which may be authorized by the Board of Directors. The Chairman of the Board shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

SECTION 4.6 PRESIDENT. The President shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of stockholders and of the Board of Directors. The President may sign, alone or with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates, contracts and other instruments of the Corporation as authorized by the Board of Directors.

SECTION 4.7 VICE PRESIDENTS. Each Vice President shall have such powers and perform such duties as the Board of Directors, the Chairman of the Board or the President may from

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time to time prescribe. In the absence or inability to act of the President, unless the Board of Directors shall otherwise provide, the Vice President who has served in that capacity for the longest time and who shall be present and able to act, shall perform all the duties and may exercise any of the powers of the President.

SECTION 4.8 TREASURER. The Treasurer shall have charge of all funds and securities of the Corporation, shall endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositories as the Board of Directors may authorize. He or she may endorse all commercial documents requiring endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He or she shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to him or her by the Chairman of the Board, the President or the Board of Directors.

SECTION 4.9 SECRETARY. The Secretary shall record all the proceedings of the meetings of the stockholders and directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of directors in lieu of a meeting. He or she shall attend to the giving and serving of all notices of the Corporation. He or she shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. He or she shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him or her by the President or the Board of Directors.

SECTION 4.10 ASSISTANT TREASURERS. In the absence or inability to

act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. An Assistant Treasurer shall also perform such other duties as the Treasurer or the Board of Directors may assign to him or her.

SECTION 4.11 ASSISTANT SECRETARIES. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. An Assistant Secretary shall also perform such other

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duties as the Secretary or the Board of Directors may assign to him or her.

SECTION 4.12 DELEGATION OF DUTIES. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any director.

ARTICLE V

INDEMNIFICATION AND INSURANCE

SECTION 5.1 RIGHT TO INDEMNIFICATION. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "PROCEEDING"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of any other corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to any employee benefit plan (hereinafter an "INDEMNITEE"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the GCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended, and amounts paid or to be paid in settlement) actually and reasonably incurred by such indemnitee in connection therewith; PROVIDED, HOWEVER, that except as provided in Section 5.3 with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors.

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SECTION 5.2 RIGHT TO ADVANCEMENT OF EXPENSES. The right to indemnification conferred in Section 5.1 shall include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "ADVANCEMENT OF EXPENSES"); PROVIDED, HOWEVER, that, if the GCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an

employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "UNDERTAKING"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "FINAL ADJUDICATION") that such indemnitee is not entitled to be indemnified for such expenses under this Section 5.2 or otherwise.

SECTION 5.3 RIGHT OF INDEMNITEE TO BRING SUIT. If a claim under Section 5.1 or Section 5.2 is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right of an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the GCL. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the GCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or stockholders) that the indemnitee has not met such applicable standard of conduct, shall

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create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article V or otherwise shall be on the Corporation.

SECTION 5.4 NON-EXCLUSIVITY OF RIGHTS. The right to indemnification and the advancement of expenses conferred in this Article V shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, provision of these Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

SECTION 5.5 INSURANCE. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the GCL.

SECTION 5.6 INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and rights to the advancement of expenses, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article V with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

SECTION 5.7 CONTRACT RIGHTS. The rights to indemnification and to the advancement of expenses conferred in Section 5.1 and Section 5.2 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

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ARTICLE VI

COMMON STOCK

SECTION 6.1 CERTIFICATES. Certificates for stock of the Corporation shall be in such form as shall be approved by the Board of Directors and shall be signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Such certificates may be sealed with the seal of the Corporation or a facsimile thereof. Any of or all the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

SECTION 6.2 TRANSFERS OF STOCK. Transfers of stock shall be made only upon the books of the Corporation by the holder, in person or by duly authorized attorney, and on the surrender of the certificate or certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require. The Board of Directors shall have the power to make all such rules and regulations, not inconsistent with the Certificate of Incorporation and these Bylaws and the GCL, as the Board of Directors may deem appropriate concerning the issue, transfer and registration of certificates for stock of the Corporation. The Board of Directors may appoint one or more transfer agents or registrars of transfers, or both, and may require all stock certificates to bear the signature of either or both.

SECTION 6.3 LOST, STOLEN OR DESTROYED CERTIFICATES. The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his or her legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements as it deems appropriate under the circumstances.

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SECTION 6.4 STOCKHOLDER RECORD DATE. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which shall not be more than sixty nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If no record date is fixed by the Board of Directors, (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the date on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (2) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; PROVIDED, HOWEVER, that the Board of Directors may fix a new record date for the adjourned meeting.

Only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend or other distribution, or to exercise such rights in respect of any such change, conversion or exchange of stock, or to participate in such action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any record date so fixed.

ARTICLE VII

SEAL

SECTION 7.1 SEAL. The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware". The seal may be used by

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causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

WAIVER OF NOTICE

SECTION 8.1 WAIVER OF NOTICE. Whenever notice is required to be given to any stockholder or director of the Corporation under any provision of the GCL or the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. In the case of a stockholder, such waiver of notice may be signed by such stockholder's attorney or proxy duly appointed in writing. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice.

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ARTICLE IX

CHECKS, NOTES, DRAFTS, ETC.

SECTION 9.1 CHECKS, NOTES, DRAFTS, ETC. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors or a duly authorized committee thereof may from time to time designate.

ARTICLE X

AMENDMENTS

SECTION 10.1 AMENDMENTS. These Bylaws may be amended, added to, rescinded or repealed at any time by the stockholders by vote at a meeting or by written consent without a meeting. The Board of Directors shall also have the power, by a majority vote, to alter or repeal any of these Bylaws, and to adopt new Bylaws. In the case of amendments by stockholders and notwithstanding the foregoing or any other provisions of these Bylaws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of stock required by law, the Certificate of Incorporation or these Bylaws, the affirmative vote of the holders of at least 66-2/3 percent of the voting power of the then outstanding shares of Voting Stock voting together as a single class, shall be required to alter, amend or repeal Sections 2.2, 2.7, 3.2, 3.3, 3.5 and this Section 10.1 of these Bylaws, unless such amendments are approved by a majority of the directors of the Corporation not affiliated or associated with any person, other than Pamela M. Lopker or Karl F. Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power of the Corporation's then outstanding voting capital stock, voting together as a single class.

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The Bylaws of this Corporation were hereby adopted on May 23, 1997.

/s/ Karl F. Lopker

Secretary

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[LOGO]

NUMBER

SHARES

QAD

INCORPORATED UNDER THE LAWS
OF THE STATE OF DELAWARE

SEE REVERSE FOR CERTAIN DEFINITIONS
CUSIP 74727D 10 8

This Certifies that

is the record holder of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, \$.001 PAR VALUE, OF

----- QAD INC. -----

transferable on the books of the Corporation by the holder hereof in
person or by duly authorized attorney upon surrender of this
certificate properly endorsed. This certificate is not valid until
countersigned by the Transfer Agent and registered by the Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile
signatures of its duly authorized officers.

Dated:

[SEAL]

/s/ Pamela M. Lopker

/s/ Karl Lopker

CHIEF EXECUTIVE OFFICER AND SECRETARY

CHAIRMAN OF THE BOARD AND PRESIDENT

COUNTERSIGNED AND REGISTERED:
FIRSTAR TRUST COMPANY
(MILWAUKEE, WI)

TRANSFER AGENT
AND REGISTRAR

BY

AUTHORIZED SIGNATURE

The Corporation shall furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock of the Corporation or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Corporation's Secretary at the principal office of the Corporation.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM -- as tenants in common	UNIF GIFT MIN ACT --	Custodian
TEN ENT -- as tenants by the entireties	(Cust)	(Minor)
JT TEN -- as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act	(State)
	UNIF TRF MIN ACT --	Custodian (until age
	(Cust) under Uniform Transfers to Minors Act
	(Minor)	(State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

/ _____ /
/ _____ /

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____ Shares
of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney
to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT
MUST CORRESPOND WITH THE NAME(S) AS
WRITTEN UPON THE FACE OF THE
CERTIFICATE IN EVERY PARTICULAR,
WITHOUT ALTERATION OR ENLARGEMENT OR

ANY CHANGE WHATEVER.

Signature(s) Guaranteed

By _____
THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE
GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS
AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP
IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM),
PURSUANT TO S.E.C. RULE 17Ad-15.

QAD INC.

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT, dated as of , is between QAD INC., a Delaware corporation (the "Company"), and _____ ("Indemnitee").

RECITALS

A. Indemnitee is a director or officer of the Company and in such capacity is performing valuable services for the Company.

B. The Company and Indemnitee recognize the difficulty in obtaining directors' and officers' liability insurance, the significant cost of such insurance and the periodic reduction in the coverage of such insurance.

C. The Company and Indemnitee further recognize the substantial increase in litigation subjecting directors and officers to expensive litigation risks at the same time such liability insurance is being severely limited.

D. The Company has adopted and its stockholders have approved bylaws (the "Bylaws") providing for the indemnification of the Company's directors and officers to the full extent permitted by Section 145 of the General Corporation Law of Delaware (the "Statute").

E. The Bylaws and the Statute specifically provide that they are not exclusive, and they thereby contemplate that contracts may be entered into between the Company and its directors and officers with respect to indemnification of such directors and officers.

F. To induce Indemnitee to serve or continue to serve the Company, the Company desires to confirm the contract indemnification rights provided in the Bylaws and agrees to provide Indemnitee with the benefits contemplated by this Agreement.

AGREEMENTS

1. INDEMNITY OF INDEMNITEE

1.1. SCOPE

The Company agrees to hold harmless and indemnify Indemnitee to the full extent permitted by law, notwithstanding that the basis for such indemnification is not specifically enumerated in this Agreement, the Company's Certificate of Incorporation, the Bylaws, any other statute or otherwise. In the event of any change, after the date of this Agreement, in any applicable law, statute or rule regarding the right of a Delaware corporation to indemnify a member of its Board of Directors or an officer, such change, to the extent it would expand Indemnitee's rights hereunder, shall be included within Indemnitee's rights and the Company's obligations hereunder, and, to the extent it would narrow Indemnitee's rights or the Company's obligations hereunder, shall be excluded from this Agreement; PROVIDED, HOWEVER, that any change required by applicable laws, statutes or rules to be applied to this Agreement shall be so applied regardless of whether the effect of such change is to narrow Indemnitee's rights or the Company's obligations hereunder.

1.2. NONEXCLUSIVITY

The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Company's Certificate of Incorporation, the Bylaws, any agreement, any vote of stockholders or disinterested directors, the Statute or otherwise, whether as to action in Indemnitee's official capacity or otherwise.

1.3. INCLUDED COVERAGE

If Indemnatee was or is made a party, or is threatened to be made a party, to or is otherwise involved (including, without limitation, as a witness) in any Proceeding (as defined below), the Company shall hold harmless and indemnify Indemnatee from and against any and all losses, claims, damages, liabilities or expenses, including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes or penalties, witness fees, amounts paid in settlement and other expenses incurred in connection with such Proceeding (collectively, "Damages").

1.4. DEFINITION OF PROCEEDING

For purposes of this Agreement, "Proceeding" shall mean any completed, actual, pending or threatened action, suit, claim or proceeding, whether civil, criminal, administrative or investigative (including an action by or in the right of the Company) and whether formal or informal, in which Indemnatee is, was or becomes involved by reason of the fact that Indemnatee is or was a director, officer, employee, trustee or agent of the Company or that, being or having been such a director, officer, employee, trustee or agent, Indemnatee is or was serving at the request of the Company as a director, officer, employee, trustee or agent of another corporation or of a partnership, joint venture, trust or other enterprise (collectively, a "Related Company"), including service with respect to an employee benefit plan, whether the basis of such proceeding is alleged action (or inaction) by Indemnatee in an official capacity as a director, officer, employee, trustee or agent or in any other capacity while serving as a director, officer, employee, trustee or agent; provided, however, that, except with respect to an action to enforce the provisions of this Agreement, "Proceeding" shall not include any action, suit, claim or proceeding instituted by or at the direction of Indemnatee, unless such action, suit, claim or proceeding is or was authorized by the Company's Board of Directors.

1.5. DETERMINATION OF ENTITLEMENT

In the event that a determination of Indemnatee's entitlement to indemnification is required pursuant to Section 145(d) of the Statute or a successor statute or pursuant to other applicable law, the appropriate decision maker shall make such determination; PROVIDED, HOWEVER, that Indemnatee shall initially be presumed in all cases to be entitled to indemnification, that Indemnatee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Company a declaration made under penalty of perjury that such fact is true and that, unless the Company shall deliver to Indemnatee a written notice that Indemnatee is not entitled to indemnification within 20 days after the Company's receipt of Indemnatee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Company's provision of indemnification, and that the Company hereby agrees not to assert otherwise.

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1.6. CONTRIBUTION

If the indemnification provided under Section 1.1 is unavailable by reason of a court decision, based on grounds other than any of those set forth in paragraphs (b) through (d) of Section 4.1, then, in respect of any Proceeding in which the Company is jointly liable with Indemnatee (or would be if joined in such Proceeding), the Company shall contribute to the amount of Damages (including attorneys' fees) actually and reasonably incurred and paid or payable by Indemnatee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and Indemnatee on the other from the transaction from which such Proceeding arose and (ii) the relative fault of the Company on the one hand and of Indemnatee on the other in connection with the events that resulted in such Damages as well as any other relevant equitable considerations. The relative fault of the Company on the one

hand and of Indemnitee on the other shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Damages. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 1.6 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

1.7. SURVIVAL

The indemnification and contribution provided under this Agreement shall apply to any and all Proceedings, notwithstanding that Indemnitee has ceased to serve the Company or a Related Company, and shall continue so long as Indemnitee shall be subject to any possible Proceeding, whether civil, criminal or investigative, by reason of the fact that Indemnitee was a director or officer of the Company or serving in any other capacity referred to in Section 1.4 of this Agreement.

2. EXPENSE ADVANCES

2.1. GENERALLY

The right to indemnification of Damages conferred by Section 1 shall include the right to have the Company pay Indemnitee's expenses in any Proceeding as such expenses are incurred and in advance of such Proceeding's final disposition (such right, an "Expense Advance").

2.2. CONDITIONS TO EXPENSE ADVANCE

The Company's obligation to provide an Expense Advance is subject to the following conditions:

2.2.1. UNDERTAKING

If the Proceeding arose in connection with Indemnitee's service as a director or officer of the Company (and not in any other capacity in which Indemnitee rendered service, including service to any Related Company), then Indemnitee or Indemnitee's representative shall have executed and delivered to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnitee's financial ability to make repayment, by or on behalf of Indemnitee, to repay all Expense Advances if it shall ultimately be determined by a final, unappealable decision rendered by a court having jurisdiction over the parties that Indemnitee is not entitled to be indemnified by the Company.

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2.2.2. COOPERATION

Indemnitee shall give the Company such information and cooperation as it may reasonably request and as shall be within Indemnitee's power.

3. PROCEDURES FOR ENFORCEMENT

3.1. ENFORCEMENT

In the event that any claim for indemnity, whether an Expense Advance or otherwise, is made hereunder and is not paid in full within 60 days after written notice of such claim is delivered to the Company, Indemnitee may, but need not, at any time thereafter bring suit against the Company to recover the unpaid amount of the claim (an "Enforcement Action").

3.2. PRESUMPTIONS IN ENFORCEMENT ACTION

In any Enforcement Action, the following presumptions (and limitation on

presumptions) shall apply:

(a) The Company expressly affirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereunder to induce Indemnitee to continue as a director or officer of the Company;

(b) Neither (i) the failure of the Company (including the Company's Board of Directors, independent or special legal counsel or the Company's stockholders) to have made a determination prior to the commencement of the Enforcement Action that indemnification of Indemnitee is proper in the circumstances nor (ii) an actual determination by the Company, its Board of Directors, independent or special legal counsel or stockholders that Indemnitee is not entitled to indemnification shall be a defense to the Enforcement Action or create a presumption that Indemnitee is not entitled to indemnification hereunder; and

(c) If Indemnitee is or was serving as a director or officer of a corporation of which a majority of the shares entitled to vote in the election of its directors is held by the Company or in an Indemnitee or management capacity in a partnership, joint venture, trust or other enterprise of which the Company or a wholly owned subsidiary of the Company is a general partner or has a majority ownership, then such corporation, partnership, joint venture, trust or other enterprise shall conclusively be deemed a Related Company and Indemnitee shall conclusively be deemed to be serving such Related Company at the Company's request.

3.3. ATTORNEYS' FEES AND EXPENSES FOR ENFORCEMENT ACTION

In the event Indemnitee is required to bring an Enforcement Action, the Company shall pay all of Indemnitee's fees and expenses in bringing and pursuing the Enforcement Action (including attorneys' fees at any stage, including on appeal); PROVIDED, HOWEVER, that the Company shall not be required to provide such payment for such attorneys' fees or expenses if a court of competent jurisdiction determines that each of the material assertions made by Indemnitee in such Enforcement Action was not made in good faith.

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4. LIMITATIONS ON INDEMNITY; MUTUAL ACKNOWLEDGMENT

4.1. LIMITATIONS ON INDEMNITY

No indemnity pursuant to this Agreement shall be provided by the Company:

(a) On account of any suit in which a final, unappealable judgment is rendered against Indemnitee for an accounting of profits made from the purchase or sale by Indemnitee of securities of the Company in violation of the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended;

(b) For Damages that have been paid directly to Indemnitee by an insurance carrier under a policy of directors' and officers' liability insurance maintained by the Company;

(c) With respect to remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law;

(d) On account of Indemnitee's conduct which is finally adjudged to have been intentional misconduct, a knowing violation of law, a violation of Section 174 of the Statute or a transaction from which Indemnitee derived an improper personal benefit; or

(e) If a final decision by a court having jurisdiction in the matter shall determine that such indemnification is not lawful.

4.2. SEC UNDERTAKING

Indemnatee understands and acknowledges that the Company may be required in the future to undertake with the Securities and Exchange Commission (the "SEC") to submit in certain circumstances the question of indemnification to a court for a determination of the Company's right under public policy to indemnify Indemnatee.

5. NOTIFICATION AND DEFENSE OF CLAIM

5.1. NOTIFICATION

Promptly after receipt by Indemnatee of notice of the commencement of any Proceeding, Indemnatee shall, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof; but the omission so to notify the Company will not, however, relieve the Company from any liability which it may have to Indemnatee under this Agreement unless and only to the extent that such omission can be shown to have prejudiced the Company's ability to defend the Proceeding.

5.2. DEFENSE OF CLAIM

With respect to any such Proceeding as to which Indemnatee notifies the Company of the commencement thereof:

- (a) The Company may participate therein at its own expense;

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- (b) The Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel satisfactory to Indemnatee. After notice from the Company to Indemnatee of its election so to assume the defense thereof, the Company shall not be liable to Indemnatee under this Agreement for any legal or other expenses (other than reasonable costs of investigation) subsequently incurred by Indemnatee in connection with the defense thereof unless (i) the employment of counsel by Indemnatee has been authorized by the Company, (ii) Indemnatee shall have reasonably concluded that there may be a conflict of interest between the Company (or any other person or persons included in the joint defense) and Indemnatee in the conduct of the defense of such action, or (iii) the Company shall not, in fact, have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the Company's expense. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnatee shall have reasonably made the conclusion provided for in (ii) above;

- (c) The Company shall not be liable to Indemnatee under this Agreement for any amounts paid in settlement of any Proceeding effected without its written consent;

- (d) The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnatee without Indemnatee's written consent; and

- (e) Neither the Company nor Indemnatee shall unreasonably withhold its consent to any proposed settlement, provided that Indemnatee may withhold consent to any settlement that does not provide a complete release of Indemnatee.

6. SEVERABILITY

Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or to fail to do any act in violation of applicable law. The Company's inability, pursuant to court order, to perform its obligations under this Agreement shall not constitute a breach of this

Agreement. The provisions of this Agreement shall be severable, as provided in this Section 6, and if this Agreement or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify or make contribution to Indemnatee to the full extent permitted by any applicable portion of this Agreement that shall not have been invalidated, and the balance of this Agreement not so invalidated shall be enforceable in accordance with its terms.

7. GOVERNING LAW; BINDING EFFECT; AMENDMENT AND TERMINATION

(a) This Agreement shall be interpreted and enforced in accordance with the laws of Delaware.

(b) This Agreement shall be binding on Indemnatee and on the Company and its successors and assigns (including any transferee of all or substantially all of its assets and any successor by merger or otherwise by operation of law), and shall inure to the benefit of Indemnatee and Indemnatee's heirs, personal representatives and assigns and to the benefit of the Company and its successors and assigns. The Company shall not effect any sale of substantially all of its assets, merger, consolidation or other reorganization in which it is not the surviving entity, unless the surviving entity agrees in writing to assume all such obligations of the Company under this Agreement.

(c) No amendment, modification, termination or cancellation of this Agreement shall be effective

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unless in writing signed by both parties hereto.

8. NOTICES

All notices, claims and other communications hereunder shall be in writing and made by hand delivery, registered or certified mail (postage prepaid, return receipt requested), facsimile or overnight air courier guaranteeing next-day delivery:

(a)	If to the Company, to:	with a copies to:
	QAD Inc. 6450 Via Real Carpinteria, California 93013 Attention:	QAD Inc. 10000 Midlantic Drive Suite 200 East Mt. Laurel, New Jersey 08054 Attention: Roland B. Desilets, Esq.
		and:
		Nida & Maloney 801 Garden Street Suite 201 Santa Barbara, California 93101 Attention: Joseph E. Nida

(b) If to Indemnatee, to the address specified on the last page of this Agreement or to such other address as either party may from time to time furnish to the other party by a notice given in accordance with the provisions of this Section 8. All such notices, claims and communications shall be deemed to have been duly given if (i) personally delivered, at the time delivered, (ii) mailed, five days after dispatched, (iii) sent by facsimile transmission, upon confirmation of receipt, and (iv) sent by any other means, upon receipt.

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

QAD INC.,
a Delaware corporation

By: _____

Name:

Title:

INDEMNITEE:

Name (Please Print)

Signature of indemnitee

Address:

with a copy to:

OFFICE LEASE
5464 CARPINTERIA AVENUE
SUITES I, K AND L

MATCO ENTERPRISES, INC.
LANDLORD

and

gad. inc
TENANT

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(iii)

OFFICE LEASE

5464 Carpinteria Avenue, Suites I, K and L

THIS LEASE AGREEMENT is dated this 30th day of November, 1992, by and between MATCO ENTERPRISES, INC., a Washington corporation, hereinafter referred to as "Landlord", and gad. inc, hereinafter referred to as "Tenant".

WITNESSETH

For and in consideration of the covenants and agreements set forth herein to be kept and performed by Tenant, Landlord leases to Tenant and Tenant accepts and hires from Landlord the hereinafter described Premises for the term, at the rental and subject to the terms and conditions set forth as follows:

1. LEASED PREMISES.

(a) The Premises leased hereunder are Suites I, K and L located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and are identified on the floor plan attached hereto as Exhibit "A", including exclusive use of the bathrooms between Suites K and L. Said leased Premises contain 3221 net rentable square feet in Suite I, and 8984 net rentable square feet in Suites K and L.

(b) Tenant has provided to Landlord its space plans and related specifications for its Tenant improvements for said leased Premises which are attached hereto as Exhibit "B". Landlord hereby approves these plans and specifications. Landlord shall cause the construction of the Tenant improvements pursuant to said plans and specifications.

The Tenant improvement costs for the implementation of the space plans attached hereto as Exhibit "B" shall not exceed the total sum of \$225,000.00 (based on 3,221 square feet for Suite I and 8984 square feet for Suites K and L).

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These costs are predicated on the attached space plans, their related specifications and the plans and specifications used to obtain the building permit for the Tenant Improvements as well as the assumption that the improvements will be constructed simultaneously for target occupancy date of February 10, 1993. Said costs shall include all "hard" and "soft" costs associated with the construction of the tenant improvements. "Soft" cost shall include the cost of all mechanical, electrical and structural design or engineering required for preparation of final plans and specifications as well as the cost of all building permits and/or other licenses or fees required to construct the same. Any changes, alterations or additions to said plans and specifications by tenant which cause the cost of same to exceed the sum of \$225,000.00 shall be borne by tenant and paid upon presentation. Landlord shall complete the Tenant Improvements in a good and workmanlike manner in accordance with the plans and specifications attached to this lease. Tenant shall have the right, upon PRIOR NOTIFICATION to property manager William Pintard, to inspect the progress of the construction of such improvements at reasonable intervals during the course of construction and upon their completion, Tenant shall inspect the same and provide Landlord a final "punch list" for corrective action.

2. TERM.

The term of the lease herein shall be five years commencing February 10, 1993 or the date of issuance of a Certificate of Occupancy for the Premises, whichever shall last occur, and terminating five years after commencement. At the time of the issuance of the certificate of occupancy Landlord and Tenant shall execute a memorandum memorializing the commencement date for the term of this Lease.

3. POSSESSION.

The issuance of a Certificate of Occupancy shall conclusively demonstrate the completion of such improvements

2.

and the availability of the Premises to Tenant and thereafter rent shall accrue under the terms of the lease. An initial letter detailing the exact date of expected occupancy shall be transmitted to Tenant no later than December 10, 1992, provided Landlord has received the building permit for the Tenant Improvements. Landlord and Tenant shall diligently work and cooperate so as to assure occupancy by February 10, 1993 or the next earliest possible date. Notwithstanding the foregoing, should Landlord, for any reason whatsoever, fail or be unable to deliver the subject premises to Tenant by July 15, 1993, then in that event, Tenant shall have the right to terminate the lease in its entirety. In the event of such termination, Landlord shall promptly return to Tenant all advance rental payments and security deposits previously transmitted to Landlord by Tenant.

4. USE OF PREMISES.

The premises may be used and occupied by Tenant for office purposes only to engage in the business of the production, development and marketing of computer software. Tenant shall in no event use the premises in a violation of any law, including any Zoning Ordinance.

5. RENT.

(a) Tenant shall pay to Landlord as minimum monthly rent without deduction, setoff, prior notice, or demand, the sum of \$15,256.25 per month (\$1.25/per square foot x 12205 square feet of net rentable square footage) in advance on the first day of each month commencing on the date possession (Certificate of Occupancy) of the premises is granted to Tenant and continuing during the term. Minimum monthly rent for any partial month, including the first month and last month of the lease, shall be prorated at the rate of 1/30 of the minimum monthly rent per day.

(b) The minimum monthly rent shall be subject to adjustment effective on the January first following commence-

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ment of the Lease Term and at the beginning of each calendar year thereafter (the "Adjustment Date") as follows. The base for computing the adjustment is the Consumer Price Index for All Urban Consumers (base year 1982-1984) for the Los Angeles-Long Beach-Anaheim Metropolitan Area, published by the United States Department of Labor, Bureau of Labor Statistics ("Index"), which is in effect on the Commencement Date ("beginning Index"). The Index published most immediately preceding the Adjustment Date in question ("Extension Index") is to be used in determining the amount of the adjustment. If the Extension Index has increased over the Beginning Index, the fixed minimum rent for the following year (until the next rent adjustment) shall be set by multiplying the fixed minimum monthly rent by a fraction, the numerator of which is the Extension Index and the denominator of which is the Beginning Index. In no case shall the fixed minimum rent be less than the fixed minimum rent in effect at the Commencement Date. On adjustment of the minimum monthly rent as provided in this Lease, the parties shall immediately execute an amendment to this Lease stating the new fixed minimum rent.

The annual cost of living adjustments shall not exceed 5% per annum during the term of the lease.

If the Index is changed so that the base year differs from that in effect when the Term commences, the Index shall be converted in accordance with the conversion factor published by the United States Department of Labor, Bureau of Labor Statistics. If the Index is discontinued or revised during the Term, such other government index or computation of which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index has not been discontinued or revised.

6. SECURITY DEPOSIT.

Simultaneously with the execution of this lease, Tenant shall deposit with Landlord \$30,512.50, which includes the sum of \$15,256.25 representing the first month's rent and the

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additional sum of \$15,256.25 representing the initial deposit of the security deposit for the performance by Tenant of the provisions of this Lease. Upon issuance of a Certificate of Occupancy Tenant shall submit to Landlord an additional check in the amount of \$30,512.50. Said additional sum represents the balance of the security deposit. Landlord shall return \$30,512.50 to Tenant, one year from the date rent commences, provided the lease has remained in full force and effect and no delinquencies in rental payment have occurred, and Tenant is not in default of any other terms of the lease. For the purposes of this paragraph, a delinquency in rental payment shall mean any monthly rental payments that when made is more than ten days past due. If Tenant is in default of the payment of rent or any other provision of this Lease, Landlord may use the security deposit, or any portion of it, to cure

the default or to compensate Landlord for all damage sustained by Landlord resulting from Tenant's default. Tenant shall immediately on demand pay to Landlord a sum equal to the portion of the security deposit expended or applied by Landlord as provided in this paragraph so as to maintain the security deposit in the sum originally agreed to be deposited with Landlord. If Tenant is not in default at the expiration or termination of this lease, Landlord shall return the security deposit to Tenant. Landlord shall have the right to commingle the security deposit with Landlord's general and other funds, and Landlord shall not be required to pay Tenant interest on the security deposit.

7. PERSONAL PROPERTY TAXES.

Tenant shall pay before delinquency all taxes, assessments, license fees, and other charges that are levied and assessed against Tenant's personal property installed or located in or on the Premises, and that accrue during the term. On demand by Landlord, Tenant shall furnish Landlord with satisfactory evidence of these payments.

5.

8. REAL PROPERTY TAXES.

(a) Tenant shall pay monthly to Landlord, as additional rent, its proportionate share of all real property taxes and general and special assessments levied and assessed against the building, other improvements, and land of which the Premises are a part.

(b) Tenant's proportionate share shall be equal to the total real property taxes levied and assessed against the building, other improvements, and land of which the Premises are a part, times the ratio the numerator of which shall be the total number of rentable square feet in the leased Premises, and the denominator of which shall be the total number of rentable square feet in the building and other improvements in which the Premises are located, which presently totals 49,456 net rentable square feet.

(c) Each year Landlord shall notify Tenant of Landlord's calculation of Tenant's proportionate share of the real property taxes and together with such notice shall furnish Tenant with a copy of the tax bill.

9. OPERATING COSTS.

(a) Tenant shall pay monthly to Landlord, as additional rent, its proportionate share of all operating costs. Tenant's proportionate share shall be calculated on the same basis as taxes are calculated as provided in paragraph 8 hereof.

(b) "Operating costs" shall mean Tenant's proportionate share of the sum of the costs reasonably incurred for all utilities, building supplies, repairs, and maintenance which includes a management fee not to exceed ten percent (10%) and insurance maintained by Landlord, and cost of labor and services of employees and independent contractors incurred by Landlord in maintaining and operating the building (such labor costs shall include the cost of compensation, including employment taxes and fringe benefits, of all persons who perform regular and recurring duties connected with the

6.

day-to-day operation, maintenance, repair and overhaul of the Building, its equipment, and the adjacent walks, parking lot, and landscaped areas, including but without limitation, administrative and office employees of Landlord, engineers, elevator starters, janitors, foremen, floor waxers, window washers, watchmen and gardeners, but excluding other persons performing services not uniformly available to or performed for substantially

all tenants of the Building); together with the amortized annual cost of capitalized improvement costs incurred in maintaining the Building.

(c) As part of the operating costs hereunder, Landlord shall provide the following service: (1) janitorial services for the premises and common area; (2) common area utilities; (3) all necessary utilities for the heating, and air conditioning of the premises including gas; (4) trash removal, fire alarm system, elevator and HVAC maintenance; (5) water; and (6) maintenance as required under paragraph 19 herein. Tenant shall pay for electrical service to the premises. During the period Tenant does not occupy Suite J and in the event Suites I, L, K and J are served using the same electrical meter then Landlord shall reimburse Tenant for the amount of electrical usage for Suite J for each electrical bill in an amount equal to the total electrical bill for Suites I, L, K and J times the ratio the numerator of which is the net rentable square footage of Suite J and the denominator of which shall be the total net rental square footage of Suites I, L, K and J.

10. REAL ESTATE TAXES AND OPERATING COSTS FOR 1993.

It is agreed that for 1993 the total charges to Tenant under paragraphs 8 and 9, above, shall not exceed \$.51 per square foot per month times 12205 net rentable square feet of the Premises. For calendar year 1994 and the remainder of the lease term there shall be no cap on the charges to Tenant under paragraphs 8 and 9, above.

7.

11. PARKING.

Tenant shall have the use of 49 parking spaces. In the event a problem develops during the term of the lease with Tenant having insufficient parking for its employees, Landlord agrees to designate 49 parking spaces for the exclusive use of Tenant. Tenant's employees shall not park in areas designated as visitor parking.

12. SIGNAGE.

Tenant shall have the right to install a corporate signature sign on the exterior of building, above or around the easterly entrance to the office building in which the subject premises are located. The size, overall design and material of said sign shall be mutually agreed upon by the parties hereto and shall conform to all local government regulations applicable to same. Tenant shall comply with all local government regulations relating to installation of such signs. The cost and installation of said exterior sign shall be borne by Tenant. Upon termination of its tenancy, Tenant shall remove the exterior sign and repair the exterior surface of the building where the sign was anchored at Tenant's cost. Tenant shall also be entitled to interior signage at both the west and east interior lobby areas of the premises and the cost and installation of same shall be borne by Landlord providing same is in conformance with Landlord's practice and custom with existing tenants.

13. EXPANSION TO SUITE J.

Provided Tenant is not in default on any term of this lease, Tenant shall have the right to expand into and occupy Suite J located at 5464 Carpinteria Avenue, Carpinteria, California, on the following terms and conditions:

(a) Tenant shall occupy Suite J on or after August 1, 1993, and on or before July 30, 1994, which time period shall hereinafter be referred to as the "window period".

8.

(b) Tenant shall provide Landlord written notice of its election to occupy Suite J and the desired date of occupancy at least 140 days prior

to its desired date of occupancy.

(c) In the event Tenant notifies Landlord of its exercise of this right to expand and occupy Suite J, Landlord shall have the right to exclude Suites 223 and 224 from the portion of Suite J occupied by Tenant. Upon receipt of Tenant's notice to expand and occupy Suite J, Landlord shall have seven days to notify Tenant in writing of its exclusion of Suites 223 and 224 from the portion of Suite J to be occupied by Tenant.

(d) The rental rate applicable to the portion of Suite J occupied by Tenant shall be \$1.25 per square foot per month subject to annual C.P.I. increases commencing January 1, 1994, under the terms of paragraph 5(b), above.

(e) Within thirty days of Tenant's written notice of its election to occupy Suite J, Tenant shall provide Landlord with plans and specifications for the tenant improvements for the portion of Suite J Tenant will occupy. Landlord shall cause the tenant improvements for Suite J to be constructed in accordance with such plans and specifications. Landlord shall bear the cost of such tenant improvements up to an amount equal to \$15.00 per square foot of net rentable space of Suite J to be occupied by Tenant.

(f) Provided that at least four years will remain on the initial term of this lease at the time of the proposed occupancy of Suite J, the term of this lease as to Suite J shall be co-extensive with the initial term of this lease as to Suites I, K and L. In the event less than four years will remain on the initial term of this lease at the time of the proposed occupancy of Suite J, then the term of this lease as to Suite J shall be four years.

(g) All other provisions of this lease shall be applicable to the portion of Suite J occupied by Tenant.

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14. RIGHT OF FIRST REFUSAL TO LEASE.

Tenant acknowledges that Tri-Counties Regional Center has the first right of refusal to lease space at 5464 Carpinteria Avenue, Carpinteria. In the event Tri-Counties waives or fails to exercise its first right of refusal to lease, and provided Tenant is not in default on any term of this lease, Tenant shall have the second right of refusal to lease any other available space at 5464 Carpinteria Avenue, Carpinteria, on the same terms and conditions contained in a bona fide offer to lease acceptable to Landlord. Landlord shall notify Tenant in writing of the premises and terms of the proposed lease of those premises, and Tenant shall have ten days to notify Landlord in writing of its exercise of its right to lease the premises on the same terms set out in Landlord's notice. In the event Tenant waives its second right of refusal to lease or fails to notify of its exercise of that right within said five day period, Tenant's right to lease such premises shall cease and Landlord shall be free to lease the premises to a third party. Landlord hereby acknowledges that Tri-Counties Regional Center's first right of refusal to lease space is non-operative as to Tenant's expansion rights for Suite J under paragraph 13 hereof, as Landlord has obtained Tri-Counties Regional Center's waiver concerning same prior to the execution of this lease by Landlord and Tenant.

15. RIGHT OF FIRST REFUSAL TO PURCHASE.

Provided Tenant is not in default on any term of this lease, during the initial term of this lease and any extension thereof, Tenant shall have the right of first refusal to purchase the premises at 5464 Carpinteria Avenue, Carpinteria, California, on the same terms and conditions as contained in a bona fide offer to purchase acceptable to landlord. Landlord shall notify Tenant in writing of the terms and conditions of the proposed sale which Landlord intends to accept, and Tenant shall have 15 days to notify

Landlord in writing of its

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exercise of its right to purchase the premises on the same terms set out in Landlord's notice. In the event Tenant waives its right of first refusal to purchase or fails to notify Landlord of its exercise of that right within said 15 day period, Tenant's right of first refusal to purchase shall cease and Landlord shall be free to sell the property to a third party.

16. OPTION TO RENEW.

Provided that Tenant is not in default on any term of this Lease, Tenant shall have the option to renew the lease for five (5) renewal periods of one year each. Tenant shall notify Landlord in writing of its exercise of the first one year renewal option at least 120 days prior to the expiration of the initial lease term, and for each subsequent renewal period Tenant shall notify Landlord in writing of its exercise of the next renewal option at least 120 days prior to the expiration of the then current renewal period. The rental rate for each renewal period shall be at the then current market rate, or the rental rate of the previous year together with the C.P.I. adjustment pursuant to paragraph 5(b), above, whichever is greater. All other terms of this lease shall remain the same during any renewal period.

17. CHANGE IN OWNERSHIP OF TENANT.

Upon the occurrence of a sale, merger or other transfer of corporate stock of Tenant resulting in Tenant's two principal shareholders/owners of corporate stock owning, beneficially or otherwise, less than fifty percent (50%) of the corporate stock of Tenant, Landlord shall have the right to review the then current financial statement of Tenant. Should Landlord's review of Tenant's financial statement under the aforesaid circumstances show that Tenant's stockholder's equity is less than two million seven hundred thousand dollars (\$2,700,000.00), then in that event, there shall arise the obligation on the part of said Tenant's present two principal

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shareholders/owners of corporate stock to personally guarantee the performance of Tenant under the lease, from the date of transfer to said stock to the expiration date of the initial lease term, provided, however, that said obligation to so personally guarantee Tenant's performance hereunder shall not, in total, exceed the sum of two hundred twenty-five thousand dollars (\$225,000.00).

18. ALTERATIONS.

Tenant shall make no alterations, additions or improvements to the Premises without the prior written consent of Landlord, which will not be unreasonably withheld, and Landlord may impose, as a condition of such consent, such requirements as Landlord in its sole discretion may deem reasonable or desirable. Tenant covenants and agrees that all work done by Tenant shall be performed in full compliance with all laws, rules, orders, ordinances, directions, regulations and requirements of all government agencies, offices, departments, bureaus and boards having jurisdiction, and in full compliance with rules, orders, directions, regulations and requirements of the Pacific Fire Rating Bureau or any other organization performing a similar function. Before commencing any work, Tenant shall give Landlord at least five (5) days' written notice of the proposed commencement date of such work. All such alterations, additions or improvements shall become the property of Landlord and shall be surrendered

with the Premises, as a part thereof, at the end of the term hereof, except that Landlord may, by written notice to Tenant given at least thirty (30) days prior to the end of the term, require Tenant to remove all improvements installed by Tenant and to repair any damage to the premises from such removal.

19. CARE OF PREMISES.

(a) Tenant shall keep the Premises and fixtures therein (excepting therefrom the bathroom fixtures in the bathrooms between Suites K and L) in first class condition and

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shall make all repairs thereto which are required to keep the Premises in first class condition, ordinary wear and tear excepted. Repairs to the Premises and fixtures therein shall be the sole responsibility of Tenant and are in addition to the operating costs referred to in paragraph 9, above. All such repairs shall be at least equal in quality to the original work. Landlord may make any such repairs which are not promptly made by Tenant and may charge the cost thereto to Tenant.

(b) Landlord, as part of the operating costs referred to in paragraph 9 hereof, shall maintain and keep in good condition and repair the structural portions of the Building, including but not limited to, the foundations, exterior walls, structural condition of interior bearing walls, plumbing and plumbing fixtures, mechanical systems and fixtures, heating and air conditioning, elevators, and electrical systems and fixtures installed or furnished by Landlord in the building. Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof except for the construction of Tenant Improvements provided for in paragraph 1(b), and the parties hereto affirm that Landlord has made no representations to Tenant respecting the condition of the Premises or the Building, except as set forth in paragraph 19 hereof. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need for such repairs or maintenance has been given to Landlord by Tenant. Tenant hereby waives the right, if any, which Tenant may have to make repairs at Landlord's expense under Section 1942 of the California Civil Code, or under any law, statute or ordinance now or hereafter in effect.

20. ACCESS.

Landlord and its agents shall have the right to enter the Premises at all reasonable times upon four (4) hours oral

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notice for the purpose of examining or inspecting the same, showing the same to prospective purchasers or tenants of the Building, and making such alterations, repairs, improvements or additions to the Premises or to the Building as Landlord may deem necessary or desirable. During the six months prior to the end of the term of this lease, Landlord may exhibit the Premises to prospective tenants during reasonable hours. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when such an entry by Landlord is necessary or permitted hereunder, Landlord may enter by means of a master key or may enter forcibly, without liability to Tenant except for any failure to exercise due care for Tenant's property, and without affecting Tenant's obligations under this lease.

21. DAMAGE TO PROPERTY; INJURY TO PERSONS.

(a) Tenant shall indemnify and hold Landlord harmless against and from any and all claims arising or allegedly arising from Tenant's use of the Premises or the conduct of his business or profession or from any activity, work, or thing done, permitted or suffered by the Tenant in or about the Premises, and shall further indemnify and hold harmless Landlord against and from any and all claims arising or allegedly arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this lease, or arising or allegedly arising from any act or negligence of the Tenant, or of his agents, contractors, servants, licensees, invitees or employees, and from and against all cost, attorney's fees, expenses and liabilities incurred in or about any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to

14.

persons, in, upon or about the Premises from any cause other than Landlord's or its agents' willful misconduct or gross negligence, and Tenant hereby waives all claims in respect thereof against Landlord.

(b) Neither Landlord nor its agents shall be liable for any damage to property entrusted or allegedly entrusted to Landlord or its agents, nor for a loss of or damage to any property by theft or otherwise, nor for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Building nor from the pipes, appliances or plumbing works therein nor from the roof, street, or subsurface not from any other place or resulting from dampness nor from any other cause whatsoever, unless caused by or due to the gross negligence or willful misconduct of Landlord, its agents, servants or employees. Neither Landlord nor its agents shall be liable for interference with the light or other incorporeal hereditaments, nor be liable for any latent defect in the Premise or in the Building which are unknown to Landlord at the time this lease is signed by Landlord and Tenant. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Premises or in the Building, or of defects therein or the fixtures or equipment.

22. ASSIGNMENT AND SUBLETTING.

Tenant shall not, either voluntarily or by operation of law, sell, hypothecate, assign, or transfer this lease, or sublet the Premises or any part thereof, or permit same to be occupied by anyone other than Tenant or Tenant's employees without the prior written consent of Landlord and any attempt to do so without such prior written consent shall be void and at Landlord's option shall terminate this Lease. Landlord agrees not to unreasonably withhold its consent provided the proposed assignee (a) is satisfactory to landlord as to credit, character and business or professional standing,

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(b) will occupy the Premises for office purposes for a similar business not inconsistent with Landlord's commitment with the other Tenants, and (c) assumes and agrees to be bound and directly responsible for all of Tenant's past, present and future obligations hereunder. However, Tenant agrees that Landlord's consent to any such assignment or sublease shall in no event be construed as releasing Tenant from its past, present and future liabilities and obligations hereunder nor as relieving Tenant from the requirement of

obtaining Landlord's prior written consent to any further assignment or subletting. Consent to one assignment or sublease shall not waive Landlord's right to approval of any future assignment or sublease.

23. DAMAGE OR DESTRUCTION.

(a) Except as elsewhere provided in this lease, if the Premises or the Building are damaged by fire or other casualty, the damage shall be repaired by and at the expense of Landlord, provided such repairs can, in Landlord's opinion, be made within sixty (60) days after the occurrence of such damage without the payment of overtime or other premiums, and further provided the cost of such repairs does not exceed the insurance proceeds received by Landlord. Rent shall abate as to the portion of the Premises as to which it is impossible for Tenant to occupy during this sixty (60) day period. If the damage is due to the fault or neglect of Tenant or his employees, there shall be no abatement of rent regardless of the period which the Premises are unusable.

(b) If such repairs cannot, in Landlord's opinion, be made within sixty (60) days after the occurrences of such damage, or the repairs exceed the insurance proceeds received by Landlord, Landlord may, at its option, make them within a reasonable time and in such event this Lease shall continue in effect and the rent shall be apportioned according to the square footage of the Premises usable by Tenant during the course of repairs as it relates to the entire Premises.

16.

Landlord's election to make such repairs must be evidenced by written notice to Tenant within thirty (30) days after the occurrence of the damage.

(c) Notwithstanding anything to the contrary contained in this paragraph 23, Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises on account of the damage during the last twelve (12) months of the term of this Lease (or any extension thereof). Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any repairs or replacement of any panels, decoration, office fixtures, railing, ceiling, floor covering, partitions, or any other property insured in the Premises by Tenant. If Landlord shall elect not to repair said damage during said last twelve (12) months of the term, then the rent shall be apportioned according to that part of the premises usable by Tenant during the remaining term.

(d) If Landlord does not elect to make such repairs which cannot be made within sixty (60) days, then either party may, by written notice to the other, cancel this lease as of the date of the occurrence of such damage. A total destruction of the Building shall automatically terminate this lease. As used herein the destruction of eighty percent (80%) of the Building shall be deemed a total destruction.

24. EMINENT DOMAIN.

(a) If the whole of the Premises or so much thereof as to render the balance unusable by Tenant shall be taken under power of eminent domain, this lease shall automatically terminate as of the date of such condemnation, or as of the date possession is taken by the condemning authority, or as otherwise herein provided, whichever is earlier. No award for any partial or entire taking shall be apportioned, and Tenant now hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant or hereafter arise-

17.

ing in or to the same or any part thereof. In the event of a partial taking which does not result in a termination of this Lease, the rent shall be apportioned according to the part of the premises remaining usable by Tenant. Landlord may, without any obligation or liability to Tenant, stipulate with any condemning authority for a judgment of condemnation, and the date of taking under this clause shall then be deemed the date agreed to under the

terms of said agreement for stipulation.

(b) If an award for partial or entire taking shall be made, then Landlord shall pay to Tenant, within sixty (60) days after receipt of the monies provided in such award, a sum equal to the excess costs of constructing Tenant's improvements over the allowance provided by Landlord, less depreciation taken by Tenant for tax purposes.

25. DEFAULTS.

The occurrence of any of the following shall constitute a material default and breach of this lease:

(a) The abandonment of the Premises by Tenant. Abandonment is herein defined to include, but is not limited to, any absence by Tenant from the Premises for five (5) consecutive days or longer while in default of any provision of this lease.

(b) A failure by Tenant to pay the rent, or to make any other payment required to be made by Tenant hereunder, where such failure continues until the earlier of (i) ten (10) days after the date such payment was due, or (ii) a period of three (3) days after written notice thereof from Landlord to Tenant; provided, however, that any such notice shall be in lieu of and not in addition to any notice required under Section 1161 of the California Code of Civil Procedure.

(c) A failure by Tenant to observe and perform any other provision of this Lease to be observed or performed by Tenant, where such failure continues for thirty (30) days after written notice thereof by Landlord to Tenant; provided,

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however, that any such notice shall be in lieu of, and not in addition to, any notice required under Section 1161 of the California Code of Civil Procedure; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion.

(d) The making by Tenant of any general assignment for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or of a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant) the same is dismissed within thirty (30) days; the appointment of a trustee or receiver to the possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; of the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

(e) Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by it hereunder unless and until it has failed to perform such obligation within thirty (30) days after written notice by Tenant to Landlord specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance then Landlord shall not be deemed to be in default if it shall commence such performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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26. REMEDIES.

In the event of any such material default or breach by Tenant, Landlord at any time thereafter, at Landlord's option and without limiting the Landlord in the exercise of any other right or remedy which Landlord may have at law in equity by reason of such default or breach, with or without notice of demand may:

(a) Reenter the premises with or without process of law and take possession of the same and of all fixtures of Tenant therein, and expel or remove Tenant and all other parties occupying the Premises, using such force as may be reasonably necessary to do so, without being liable to any prosecution for such reentry or for the use of such force, and, without terminating this Lease, without notice of any kind to Tenant, at any time and from time to time relet the Premises or any part thereof for the account of Tenant, for such term, upon such conditions and at such rental as may be commercially reasonable. In such event Landlord may receive and collect the rent from such reletting and apply it against any amounts due from Tenant hereunder (including, but without limitation, such reasonable expenses as Landlord may have incurred in recovering possession or the repairing the same for reletting, and all other necessary expenses, commissions and charges, including attorneys' fees, which Landlord may have paid or incurred in connection with such repossession and reletting). Landlord may execute any lease made pursuant hereto in Landlord's name or in the name of Tenant, as Landlord may see fit, and the Tenant thereunder shall be under no obligation to see to the application by Landlord of any rent collected by Landlord, nor shall Tenant have any right to collect any rent thereunder. Whether or not the Premises are relet, Tenant shall pay Landlord, until the end of the term hereof, the amount of all rent and other charges required to be paid by Tenant hereunder, less the proceeds of such reletting during the term hereof, if any, after payment of Landlord's expense including leasing commission, as provided

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above. Such payments by Tenant shall be due at such times as are provided elsewhere in this lease, and Landlord need not wait until the termination of this lease to recover them by legal action or otherwise. Landlord shall not by any reentry or other act be deemed to have terminated this Lease or the liability of Tenant for the total rent hereunder unless Landlord shall give Tenant written notice of Landlord's election to terminate the Lease.

(b) Give written notice to Tenant of Landlord's election to terminate this lease, reenter the Premises with or without process of law and take possession of the same and all fixtures therein, and expel or remove Tenant and all other parties occupying the Premises, using such force as may be reasonably necessary to do so, without being liable to any prosecution for such reentry or for the use of such force. In such event, Landlord shall thereupon be entitled to recover from Tenant:

(i) The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(ii) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(iii) The worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform his obligations under this Lease or which in the ordinary course of things would be likely to result therefrom including leasing commissions.

As used in Subsection (i) and (ii) above, the "worth at the time of award" is computed by allowing interest at the

rate of ten percent (10%) per annum. As used in Subsection (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

(c) Landlord shall have all rights and remedies provided in Section 1951.4 of the California Civil Code wherein it provides, in part, that although Tenant has breached this Lease, this Lease continues in effect for so long as Landlord does not terminate Tenant's right to possession and Landlord may enforce all his rights and remedies under this lease. Notwithstanding the above, Landlord will make a reasonable effort to obtain a substitute tenant.

27. RULES AND REGULATIONS.

Tenant shall fully and faithfully comply with and observe the rules and regulations for the building of which the Premises are a part and which are attached hereto as Exhibit "C". Furthermore, Tenant shall fully and faithfully comply with all additions or amendments to such rules or regulations hereafter made by Landlord and communicated to Tenant by written notice given to Tenant by Landlord. Landlord shall not be liable in any way for failure of any other occupant of the building of which the Premises are a part to comply with and observe such rules and regulations.

28. CONFLICT OF LAWS.

This Lease shall be governed by and construed pursuant to the laws of the State of California.

29. END OF TERM.

At the termination of this Lease Tenant shall surrender the Premises to Landlord in the same condition and repair as Tenant received possession of the premises, reasonable wear and tear excepted. Provided Tenant is not in default Tenant may remove, and at Landlord's request shall

remove, all of its trade fixtures, personal property and signs, provided such removal will not structurally injure the Premises and Tenant agrees to restore the Premises to its original condition, reasonable wear and tear excepted. Any property not so removed within ten (10) days after termination, Landlord may remove and store, at Tenant's expense. If Tenant shall not remove same within twenty (20) days thereafter, Landlord may deduct the cost of removal and storage thereof from any refund due Tenant from its security deposit. Tenant shall reimburse Landlord for any cost incurred by Landlord in such removal or disposition or in repairing or restoring the Premises. Tenant shall further indemnify Landlord against all losses, costs and damages resulting from Tenant's failure and delay in surrendering the Premises in good clean condition.

30. QUIET POSSESSION.

Upon Tenant's paying the rent reserved hereunder and observing and performing all the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire term hereof, subject to all of the provisions of this Lease.

31. SUCCESSORS AND ASSIGNS.

Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns.

32. NOTICES.

(a) Any notice required or permitted to be given hereunder may be given by personal delivery or by mail, and if by mail shall be deemed sufficiently given if sent by

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registered or certified mail, postage prepaid, addressed as follows:

LANDLORD: MATCO ENTERPRISES, INC.
c/o The William Herbert Co.
5464 Carpinteria Avenue
Carpinteria, California 93103

TENANT: qad. inc
6450 Via Real
Carpinteria, California 93013

(b) Either party may by written notice to the other party, specify a different address for notice purposes except that Landlord may in any event use the Premises as Tenant's address for notice purpose.

33. INSURANCE.

(a) Tenant shall carry at its own expense during the term hereof all risk public liability and property damage insurance which shall have a single limit of \$1,000,000.00 (or such higher amounts as Landlord may reasonably hereafter require) covering injuries to persons and property in or about the Premises. Said insurance shall be written by companies satisfactory to Landlord. Tenant shall provide Landlord with satisfactory evidence of such insurance, and Tenant shall obtain, from its insurance carrier, a waiver of subrogation against Landlord. Landlord shall obtain, from its insurance carrier, a waiver of subrogation against Tenant. In the event Tenant fails to obtain any insurance as provided in this Lease, Landlord may obtain any such insurance, and the cost thereof shall be paid by Tenant as additional rent with the first payment of rent which is due subsequent to Landlord's incurring such cost, and Landlord shall have all remedies to collect the same as rent as is provided in this lease, and/or as otherwise provided by law for the collection of rent. Such policy shall name Landlord and Landlord's lender, if any, and others as may be designated by Landlord as additional insureds

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and shall provide for at least thirty (30) days' written notice to Landlord of cancellation. Such policy shall further provide for contractual liability coverage. Landlord is not obligated to carry insurance on Tenant's possessions.

(b) Further, Tenant shall carry, at its own expense during the term hereof, a policy of standard fire and extended coverage insurance with vandalism and malicious mischief endorsements on all its personal property and removable fixtures and equipment located in or about the Premises in a reasonable amount, but not less than 100% of replacement value.

The proceeds of such policy that become payable due to damage, loss

or destruction of such property, shall be used by Tenant for the repair or replacement thereof.

34. BROKERS.

Tenant warrants that he has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, and that he knows of no other real estate broker or agent who is or might be entitled to a commission in connection with this lease other than Realco, Inc. or assignee. In the event of a breach of this warranty, Tenant shall indemnify, defend and hold Landlord harmless from any and all claims by any real estate broker arising or alleged to have arisen from dealings by Tenant in connection with the Premises or the Building.

35. WAIVER.

No waiver by Landlord or Tenant of any provision of this lease shall be deemed to be a waiver of any other provision hereof or of any subsequent breach by the other of the same or any other provision. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant, whether or not similar to the act so consented to

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or approved. No act or thing done by Landlord or Landlord's agents during the term of this lease shall be deemed acceptance of a surrender of the Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord. No employee of Landlord or of Landlord's agents shall have any power to accept the keys to the Premises prior to the termination of this Lease, and the delivery of the keys to any such employee shall not operate as a termination of this Lease or a surrender of the Premises.

36. ESTOPPEL CERTIFICATE.

(a) Tenant shall at any time and from time to time, upon not less than ten (10) days' prior written notice from Landlord, execute, acknowledge and deliver to Landlord a statement in writing (i) certifying that this lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the dates to which the rental, security deposits, and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed. Any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part.

(b) Tenant's failure to deliver such statement within such time shall be conclusive upon Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no defaults in Landlord's performance, and (iii) that not more than one month's rental has been paid in advance and security deposits as described herein. In the event Tenant fails to deliver such statement within such time, Tenant shall be deemed to have appointed Landlord as Tenant's attorney-in-fact for the preparation and execution of an Estoppel Certificate on the terms set forth herein.

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37. INTEREST ON PAST DUE OBLIGATIONS.

Any amount due from Tenant to Landlord hereunder which is not paid when due shall bear interest at the rate of ten percent (10%) per annum, but in no event exceeding the maximum amount allowed under California law, from the due date until paid, unless otherwise specifically provided herein, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease.

38. LATE CHARGES.

Tenant shall pay a late charge equal to 5% of any monthly installment of rent which is more than ten days past due.

39. TENANT FINANCIAL STATEMENTS.

During the term of this lease and any extension thereof, within 120 days after the end of its fiscal year Tenant shall provide Landlord unaudited Financial Statements for the just concluded fiscal year and audited Financial Statements for the just concluded fiscal year by June 15 and within 120 days after the conclusion of the first six months of the current fiscal year Tenant shall provide Landlord its unaudited Financial Statements for the just concluded six month period of the current fiscal year.

Landlord acknowledges that Tenant considers the information contained in its Financial Statements (audited and unaudited) to be proprietary and confidential. Therefore, Landlord hereby agrees not to copy, republish, distribute or disclose the information in Tenant's Financial Statements to any person(s), firm or corporation, or to any unauthorized person(s) employed by Landlord, without the prior written consent of Tenant. Landlord's agreement as to nondisclosure of the above-noted financial information shall extend for a period of two years beyond the date of Landlord's last receipt of such information. Further, this nondisclosure agreement

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shall also apply to other employees or consultants employed by landlord who have been designated as authorized to have knowledge of or access to said Financial Statements. Landlord is authorized to disclose the information to its attorneys and its accountants engaged to advise Landlord regarding the property which the premises is a part of.

40. TRANSFER OF LANDLORD'S INTEREST.

In the event of any transfer of Landlord's interest in the Premises or in the real property of which the Premises are a part, upon the transfer of the security deposits the transferor shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer.

41. HOLDING OVER.

If tenant shall hold over and beyond the term of this Lease with the consent, express or implied, of Landlord, such holding shall be construed to be a tenancy only from month to month and Tenant will pay the rent, as above specified, for such further time as Tenant may continue its occupancy. The foregoing provisions of this paragraph 41 are in addition to and do not affect Landlord's right of reentry or any other rights of Landlord hereunder or as otherwise provided by law.

42. INABILITY TO PERFORM.

This Lease and the obligations of Tenant hereunder shall not be affected or impaired because Landlord is unable to fulfill any of its obligations hereunder or is delayed in doing so, if such inability or delay is caused by reason of strike or other labor troubles, or act of God, or any

other cause beyond the control of Landlord.

43. SEPARABILITY.

Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or

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invalidate any other provision hereof and such other provisions shall remain in full force and effect.

44. ATTORNEY'S FEES.

In the event of a default on the part of Tenant of any provision in this Lease, Landlord shall be entitled to deduct from the security deposit herein any attorney's fees incurred as a result of said default. In the event the security deposit is insufficient to satisfy the damages proximately caused by Tenant's default, including attorney's fees incurred by Landlord, then the amount of attorney's fees incurred by Landlord, along with all other damages incurred by Landlord after deduction of the outstanding balance of the security deposit shall be immediately due and payable by Lessee to Lessor. Should any litigation be commenced between the parties to this Lease concerning the premises, this Lease, or the rights and duties of either in relation thereto, the party, Landlord or Tenant, prevailing in such litigation shall be entitled, in addition to such other relief as may be granted, to a reasonable sum as and for attorney's fees in the litigation which shall be determined by the court in such litigation or in a separate action brought for that purpose.

45. TIME OF ESSENCE.

Time is of the essence with respect to the performance of every provision of this Lease in which time of performance is a factor.

46. HEADINGS.

The article captions contained in this Lease are for convenience only and shall not be considered in the construction or interpretation of any provision hereof.

47. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS.

This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in

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this Lease, and no prior agreement or understanding pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest.

48. GENDER.

Throughout this Lease, the masculine gender shall be deemed to include the feminine and the neuter and the singular, the plural and vice versa.

49. ACCORD AND SATISFACTION.

No payment by Tenant or receipt by Landlord of a lesser amount than

that stipulated herein for rent, additional rent or any other charge shall be deemed to be other than on account of the earliest stipulated rent, additional rent or other charge then due, nor shall any endorsement or statement on a check or letter accompanying any check or payment be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to Landlord's rights to recover the balance of such rent, additional rent, or other charges or pursue any other remedy in this Lease at law or in equity.

50. NO LIENS.

Tenant shall not permit any lien, encumbrance or charge for materials or labor claimed to have been furnished to the Premises on Tenant's behalf or otherwise to be filed against the Premises or the Building. In the event such a lien, encumbrance or charge is filed against the Premises or the Building, Tenant shall, within ten (10) days after notice from Landlord, promptly discharge any such lien, encumbrance or charge.

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51. SUBORDINATION.

This lease shall be subject and subordinate at all times to all ground and underlying leases which now exist or may hereafter be executed affecting the Building or the land upon which the Building is situated or both, and to the lien of any mortgages or deeds of trust in any amount or amounts whatsoever now or hereafter placed on or against the land and Building or either thereof, or on or against any ground or underlying lease without the necessity of the execution and delivery of any further instruments on the part of Tenant to effectuate such subordination; provided, however, that so long as Tenant is not in default, the terms of this Lease shall not be affected by termination proceedings in respect to such ground or underlying lease or foreclosure or other proceedings under such mortgages or deeds of trust. Tenant hereby agreeing, at the written request of the Landlord under such ground or underlying lease or the purchaser of the Building, in such foreclosure or other proceedings, to attorn to such Landlord or to such purchaser or, at such Landlord's or such purchaser's option, to enter into a new lease for the balance of the term hereof upon the same terms and provisions as are contained in this Lease. Notwithstanding the foregoing, Tenant shall execute and deliver upon demand such further instrument or instruments evidencing such subordination of this lease to the lien of any such mortgages or deeds of trust as may be required by Landlord.

52. COMMON AREAS.

Tenant shall have the nonexclusive right, in common with others, to the use of common entrances, lobbies, elevators, ramps, drives, stairs and similar access and service ways and common areas in and adjacent to the Building of which the Premises are a part subject to such nondiscriminatory rules and regulations as may be adopted by Landlord.

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53. SURRENDER OF PREMISES.

The voluntary or other surrender of this lease by Tenant, or a mutual cancellation thereof, shall not work a merger, and shall, at the option of the Landlord, operate as an assignment to it of any or all subleases or subtenancies.

54. EXAMINATION OF LEASE.

Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for Lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

55. RECORDING.

Neither Landlord nor Tenant shall record this Lease or a short form memorandum thereof without the consent of the other.

IN WITNESS WHEREOF, the parties have executed this Lease the day and year first above written.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington Corporation

By /s/ Meriko Tamaki Wong

MERIKO TAMAKI WONG
President

TENANT:

qad. inc

By /s/ Pam Lopker

PAM LOPKER, President

By /s/ Karl Lopker

KARL LOPKER, Vice-President

FIRST AMENDMENT TO OFFICE LEASE

This First Amendment to Office Lease is entered into between Matco Enterprises, Inc., a Washington Corporation, hereinafter referred to as "Landlord" and qad. inc, a California Corporation hereinafter referred as to "Tenant".

This First Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease, dated November 30, 1992, for Suites I, K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Tenant desires to lease additional space at 5464 Carpinteria Avenue, Suites C and H, specifically, and landlord has agreed to lease Suites C and H on the terms and conditions of this First Amendment To Office Lease.

IT IS AGREED:

1. ADDITIONAL LEASED PREMISES.

The Additional Leased Premises hereunder are Suites C and H located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and are identified on the floor plan attached hereto as Exhibit "A". Said additional lease premises contain 3,113 net rentable square feet in Suite C and 1394 net rentable square feet in Suite H. The reference to the term Premises in the Office Lease shall also apply to the Additional Leased Premises as used in this First Amendment To Office Lease.

2. TERM OF LEASE.

The term of this lease shall commence one day after notification that the improvements provided for in paragraph 6(a) and required for the Additional Leased Premises have been substantially completed and shall terminate with the termination of the Office Lease.

3. RENT

(a) Tenant shall pay to Landlord as minimum monthly rent without deduction set off, prior notice or demand the sum of \$5633.75 (\$1.25/per square foot 4507 square feet of net rentable square footage) in advance on the first day of each month commencing on date of commencement of the term of the Lease for the Additional Leased Premises and continuing during the term of the original Office Lease, which rent shall be in addition to rent provided for in the Office Lease. Minimum monthly rent for any partial month, including the first month and last month of the

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lease shall be prorated at the rate of 1/30th of the minimum monthly rent per day.

(b) The minimum monthly rent shall be subject to adjustments as provided for in Paragraph 5 (b) of the Office Lease.

4. SECURITY DEPOSIT.

Simultaneously with the execution of the First Amendment To Office Lease Tenant shall deposit with the Landlord \$13,566.07 which includes the sum of \$5633.75 representing the first month's rent, \$5633.75 representing the additional security deposit for the Additional Leased Premises and the sum of

\$2298.57 representing the payment towards the first month's operating costs and real property taxes.

5. PROPERTY TAXES AND OPERATING COSTS.

Tenant shall pay monthly to Landlord as additional rent its proportionate share of property taxes, and operating costs which shall be computed in the manner provided for the Paragraphs 8, 9 and 10 of the Office Lease taking into account the additional net rentable square footage occupied by the tenant in the Additional Leased Premises.

6. TENANT IMPROVEMENTS.

Tenant improvements for the Additional Leased Premises shall be done in two stages.

(a) Prior to occupancy, landlord at its sole cost and expense shall cause the Additional Leased Premises to be improved in accordance with Exhibit "A" which is attached hereto and incorporated herein by reference. Upon the completion of the work provided for in Exhibit "A", the term of the lease shall commence as provided for in Paragraph 2 of this First Amendment To Office Lease.

(b) After occupancy, tenant shall supply landlord with its space plans and related specifications for its tenant improvements for said Additional Leased Premises. Landlord shall have the right to approve said space plans and related specifications which approval shall not unreasonably be withheld. Landlord shall cause the construction of the tenant improvements pursuant to said approved space plans and related specifications.

(c) The tenant improvement costs for the implementation of the space plans shall not exceed the sum of \$67605.00 (based on 4507 net rentable square feet for Suites C and H times \$15 per square foot) less the cost of performing the improvements required by paragraph 6(a) herein. Said costs shall include all "hard" and "soft" costs associated with the construction of the tenant improvements, as those terms are defined in Paragraph 1 (b) of the Office Lease. In the event cost of the tenant improvements pursu-

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ant to the approved space plans and related specifications exceeds the sum of \$67605.00, tenant shall reimburse landlord for the excess cost. Landlord shall complete the tenant improvements in a good and workmanlike manner. Because the tenant improvements will be installed after occupancy, Tenant acknowledges there will be disruption due to the work and waives any claim for reduced rent or any claim for breach of the covenant of quiet enjoyment as a result thereof. Tenant shall not be entitled to any tenant improvement allowance if the Tenant improvements are requested after September 1, 1995.

7. PARKING.

Tenant shall have the use of an additional 18 parking spaces. In the event a problem develops during the term of the lease with tenant having insufficient parking for its employees, Landlord agrees to designate 18 additional parking spaces for the exclusive use of Tenant, in addition to those provided for in Paragraph 11 of the Office Lease.

8. POSSESSION.

The Landlord shall deliver possession of the Additional Leased Premises to Tenant for occupancy promptly and will use every effort to deliver possession as soon as possible.

9. OPTION TO RENEW.

Tenant shall have an option to renew the lease of the Additional Leased

Premises for five (5) renewal periods of one year each. Rent for the renewal periods to be in accordance with Paragraph 16 of the Office Lease.

10. ADDITIONAL TERMS.

Except where inconsistent with this First Amendment To Office Lease, the terms and conditions of the Office Lease shall apply equally to the Additional Leased Premises as to Suites I, L and K.

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IN WITNESS WHEREOF, the parties have executed this First Amendment To Officer Lease on September 9, 1993.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington Corporation

By: /s/ Meriko Tamaki Wong

MERIKO TAMAKI WONG, President

TENANT:

qad. inc

By: /s/ Pam Lopker

PAM LOPKER, President

By: /s/ Karl Lopker

KARL LOPKER, Vice-President

APPROVED AS TO FORM AND CONTENT

THE WILLIAM HERBERT COMPANY

By: /s/ William Pintard

WILLIAM PINTARD

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SECOND AMENDMENT TO OFFICE LEASE

This Second Amendment to Office Lease is entered into between Matco Enterprises, Inc., a Washington Corporation, hereinafter referred to as "Landlord" and gad. inc, a California Corporation hereinafter referred as to "Tenant".

This Second Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease, dated November 30, 1992, for Suites I,K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993 whereby Landlord leased Suite C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Tenant desires to exercise its right to expand to Suite J provided for in the Office Lease on the terms and conditions of this Second Amendment to Office Lease.

IT IS AGREED:

1. ADDITIONAL LEASED PREMISES.

The Additional Leased Premises hereunder is Suite J located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and identified on the floor plan attached hereto as Exhibit "A". Said Additional Leased Premises contain 10,493 net rentable square feet in Suite J. The reference to the term Premises in the Office Lease shall also apply to the Additional Leased Premises as used in this First Amendment To Office Lease. Landlord acknowledges having waived its right to exclude Suites 223 and 224 of Suite J from the expansion by Tenant under the terms of Paragraph 13(c) of the Office Lease.

1.

2. TERM OF LEASE.

The term of this Lease as to Suite J shall commence one (1) day after notification that the improvements required for the Additional Leased Premises, Suite J, have been substantially completed and shall terminate with the termination of the Office Lease.

3. RENT.

(a) Tenant shall pay to Landlord, as minimum monthly rent without deduction, set off, prior notice or demand, the sum of \$13,116.25 (\$1.25/per square foot x 10,493 of net rentable square footage for Suite J) together with an additional amount due to the annual cost of living adjustment on January 1, 1994. The rent provided for herein shall be paid in advance on the first day of each month commencing on date of commencement of the term of the Lease for the Additional Leased Premises and continuing during the term of the original Office Lease, which rent shall be in addition to rent provided for in the Office Lease, and the First Amendment to Office Lease. Minimum monthly rent for any partial month, including the first month and last month of the lease as to Suite J shall be prorated at the rate of 1/30th of the

minimum monthly rent per day.

(b) The minimum monthly rent shall be subject to adjustments as provided for in Paragraph 5(b) of the Office Lease.

4. SECURITY DEPOSIT.

Simultaneously with the execution of the Second Amendment To Office Lease, Tenant shall deposit with the Landlord \$31,583.93 which includes the sum of \$13,116.25 representing the first month's rent, \$13,116.25 representing the additional security deposit for the Additional Leased Premises and the sum of \$5,351.43 representing the payment towards the first month's operating costs and real property taxes.

2.

5. PROPERTY TAXES AND OPERATING COSTS.

Tenant shall pay monthly to Landlord as additional rent its proportionate share of property taxes, and operating costs which shall be computed in the manner provided for the Paragraphs 8, 9, and 10 of the Office Lease taking into account the additional net rentable square footage occupied by the Tenant in the Additional Leased Premises.

6. TENANT IMPROVEMENTS.

Tenant improvements for the Additional Leased Premises, Suite J, shall be completed according to the following terms and conditions:

(a) It is acknowledged by Landlord and Tenant that Tenant gave notice to Landlord of exercising its right to expand into Suite J on or about November 9, 1994.

(b) Within thirty (30) days of Tenant's notice, Tenant shall provide Landlord with plans and specifications for the tenant improvements for Suite J. Provided Tenant has timely delivered to Landlord its plans and specifications for the tenant improvements for Suite J, Landlord shall have a maximum of one hundred forty (140) days from Tenant's notice of exercising its right to expand into Suite J to construct the tenant improvements in accordance with the plans and specifications provided by Tenant. Landlord shall deliver possession of the Additional Leased Premises to Tenant for occupancy promptly and will use every reasonable effort to deliver possession as soon as possible.

(c) Landlord shall bear the cost of such tenant improvements up to an amount equal to \$15/per square foot of net rentable space of Suite J of 10,493 square feet for a total tenant improvement allowance of \$157,395.00. The cost of tenant improvements in excess of \$157,395.00 shall be borne by Tenant and shall be paid upon substantial completion of the tenant improvements. The cost of the tenant improvements shall include all "hard" and "soft" cost associated with the construction of the tenant improvements as those terms are defined in Paragraph 1(b) of the Office Lease.

3.

Landlord shall complete the tenant improvements in a good and workmanlike manner.

7. ADDITIONAL TERMS.

Except where inconsistent with this Second Amendment To Office Lease, the terms and conditions of the Office Lease shall apply equally to the

Additional Leased Premises, Suite J, as to Suites I, L, K, C and H.

IN WITNESS WHEREOF, the parties have executed this Second Amendment To Office Lease on January 14th, 1994.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington Corporation

By: /s/ Meriko Tamaki

MERIKO TAMAKI, formerly known as
Meriko Tamaki Wong, President

TENANT:

gad. inc.

By: /s/ Pam Lopker 1/11/94

PAM LOPKER, President

By: /s/ Karl Lopker 1/11/94

KARL LOPKER, Vice-President

APPROVED AS TO FORM AND CONTENT:

THE WILLIAM HERBERT COMPANY

By: /s/ William Pintard

WILLIAM PINTARD

4.

Exhibit A

FLOOR PLAN

Suite J is leased premises.

THIRD AMENDMENT TO OFFICE LEASE

This Third Amendment to Office Lease is entered into between Matco Enterprises, Inc., a Washington corporation, hereinafter referred to as "Landlord", and gad. inc, a California corporation, hereinafter referred to as "Tenant".

This Third Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease, dated November 30, 1992, for Suites I, K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993, whereby Landlord leased Suites C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Landlord and Tenant entered into a Second Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Suite J to Tenant on the terms and conditions of the Second Amendment To Office Lease.

D. Tenant desires to lease additional space at 5464 Carpinteria Avenue, Rooms B and C of the Basement, specifically, and Landlord has agreed to lease Rooms B and C of the Basement on the terms and conditions of this Third Amendment To Office Lease.

IT IS AGREED:

1. TEMPORARY LEASE OF ROOM C.

Landlord hereby leases to Tenant Room C in the Basement located at 5464 Carpinteria Avenue, City of Carpinteria, County of Santa Barbara, State of California, identified on the floor plan attached hereto as Exhibit "A". The term of this lease as to Room C shall be ninety (90) days commencing December 15, 1993. Tenant shall pay as rent the sum of \$750.00 (\$0.75/square foot x 1000 net rental square feet) upon execution of this amendment and in advance on the 1st of each month during the term of this lease as

1.

to Room C. Minimum monthly rent for any partial month, including the first month and last month of the lease as to Room C of the Basement shall be prorated at the rate of 1/30th of the minimum monthly rent per day. Tenant shall not be charged any share of property taxes or operating expenses under Paragraphs 8, 9 and 10 of the Office Lease for the lease of Room C. Landlord shall not be required to perform any tenant improvements for this space. In the event any tenant improvements are required, they shall be done at Tenant's expense.

2. ADDITIONAL LEASED PREMISES.

The Additional Leased Premises hereunder is Room B of the Basement located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and identified on the floor plan attached hereto as Exhibit "A". Said Additional Leased Premises contain 1214 net rentable square feet in Room C of the Basement. The reference to the term Premises in the Office Lease shall also apply to the Additional Leased Premises as used in this First Amendment To Office Lease.

3. TERM OF LEASE.

The term of this Third Amendment To Office Lease as to Room B of the Basement shall commence one day after notification that the improvements required for the Additional Leased Premises have been substantially completed and shall terminate with the termination of the Office Lease.

4. RENT.

(a) Tenant shall pay Landlord, as minimum monthly rent without deduction, set off, prior notice or demand, the sum of \$910.50 (\$0.75/per square foot x 1214 of net rentable square footage for Room B of the Basement) in advance on the first day of each month commencing on date of commencement of term of the Lease for the Additional Leased Premises, Room B of the Basement, and continuing during the term of the original Office Lease and the First and Second Amendments To Office Lease, which rent shall be in addition to the rent provided for in the Office Lease and the

2.

First and Second Amendments To Office Lease. Minimum monthly rent for any partial month, including the first month and last month of the lease as to Room B of the Basement shall be prorated at the rate of 1/30th of the minimum monthly rent per day.

(b) The rental for Room B shall not be subject to the annual CIP increase for January 1, 1994; however, for each year thereafter the minimum monthly rent shall be subject to adjustments as provided for in Paragraph 5(b) of the Office Lease.

5. SECURITY DEPOSIT.

Simultaneously with the execution of the Third Amendment To Office Lease, Tenant shall deposit with Landlord \$2440.14 which includes the sum of \$910.50 representing the first month's rent, \$910.50 representing the additional security deposit for the Additional Leased Premises and the sum of \$619.14 representing the payment towards the first month's operating costs and real property taxes.

6. PROPERTY TAXES AND OPERATING COSTS.

Tenant shall pay monthly to Landlord as additional rent its proportionate share of property taxes, and operating costs which shall be computed in the manner provided for the Paragraphs 8, 9 and 10 of the Office Lease taking into account the additional net rentable square footage occupied by Tenant in the Additional Leased Premises.

7. TENANT IMPROVEMENTS.

Tenant improvements for the Additional Leased Premises, Room B of the Basement, shall be completed according to the terms and conditions:

(a) Within fifteen (15) days of execution of this Third Amendment To Office Lease, Tenant shall provide Landlord with plans and specifications for the tenant improvements for Room B of the Basement. Provided Tenant has timely delivered to Landlord its plans and specifications for the tenant improvements for Room B of the Basement, and the requirements for the tenant improve-

3.

ments are limited to fresh paint, carpeting, dropped ceiling, supplemental

HVAC, and data communication capability around the parameter of the room, Landlord shall have a maximum of sixty (60) days from the execution of this Third Amendment To Office Lease to construct the tenant improvements in accordance with the plans and specifications provided by Tenant. Landlord shall deliver possession of the Additional Leased Premises to Tenant for occupancy promptly and will use every reasonable effort to deliver possession as soon as possible.

(b) Landlord shall initially pay the cost of the tenant improvements. Tenant shall reimburse Landlord for the cost of the tenant improvements amortized over the remaining term of the Office Lease in equal monthly installments over and above the rent provided for in Paragraph 3 above.

8. ADDITIONAL TERMS.

Except where inconsistent with this Third Amendment To Office Lease, the terms and conditions of the Office Lease shall apply equally to the Additional Leased Premises as to Suites I, L, K, C, H and J.

IN WITNESS WHEREOF, the parties have executed this Third Amendment to Office Lease on January 14, 1994.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington Corporation

By: /s/Meriko Tamaki

MERIKO TAMAKI, formerly known as
Meriko Tamaki Wong, President

TENANT:

qad, inc.

By: /s/Pamela M[ILLEGIBLE] Lopker

PAM LOPKER, President

By: /s/Karl Lopker

KARL LOPKER, Vice-President

(Signatures Continued)

4.

(Continued Signatures)

APPROVED AS TO FORM AND CONTENT:

THE WILLIAM HERBERT COMPANY

By: /s/William Pintard

WILLIAM PINTARD

5.

[FLOOR PLAN]

5464 Carpinteria Ave.
- Basement -

Room C and B is Leased Premises.

FOURTH AMENDMENT TO OFFICE LEASE

This Fourth Amendment To Office Lease is entered into between Matco Enterprises, Inc., a Washington corporation, hereinafter referred to as "Landlord", and gad. inc., a California corporation, hereinafter referred to as "Tenant".

This Fourth Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease dated November 30, 1992, for Suites I, K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993, whereby Landlord leased Suites C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Landlord and Tenant entered into a Second Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Suite J to Tenant on the terms and conditions of the Second Amendment To Office Lease.

D. Landlord and Tenant entered into a Third Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Room B in the basement and temporarily leased Room C in the basement on the terms and conditions of the Third Amendment To Office Lease.

E. With the Tenant expanding into Suite J, Landlord desires to use Suite H for its own purposes, and Tenant has agreed to terminate the Lease as to Suite H, and only Suite H.

IT IS AGREED:

1. TERMINATION AS TO SUITE H.

Effective as of February 1, 1994, the Office Lease shall terminate as to Suite H and Suite H only. Suite H contains 1394 net rentable square feet. Effective February 1, 1994, the obligation of Tenant to pay rent and a proportionate share of the operating costs for Suite H shall cease.

1.

2. ADDITIONAL TERMS.

Except for any terms inconsistent with this Fourth Amendment To Office Lease, the terms and conditions of the Office Lease, as amended in the First, Second and Third Amendments To Office Lease, shall remain in full force, and effect, as to the remaining leased premises, Suites I, L, K, C and J.

In witness whereof, the parties have executed this Fourth Amendment To Office Lease on Feb. 15th, 1994.

Landlord:

MATCO ENTERPRISES, INC., a
Washington corporation

By: /s/ Meriko Tamaki

MERIKO TAMAKI, formerly
known as Meriko Tamaki Wong,
President

Tenant:

gad. inc., a California
corporation

By: /s/ Pam Lopker

PAM LOPKER, President

By: /s/ Karl Lopker

KARL LOPKER, Vice-President

Approved as to form
and content:

THE WILLIAM HERBERT COMPANY

By: /s/ William Pintard

WILLIAM PINTARD

[Letterhead]

February 17, 1994

Mr. Doug Marsh
gad.inc
6450 Via Real Ave.
Carpinteria, CA 93013

Dear Doug:

To memorialize your companies move out of Suite H and keep our leases in order an amendment to the lease has been prepared for your executive officer's signature.

Please have the original executed and returned to me. I have enclosed a copy for your files.

Sincerely,

/s/ William H. Pintard

William H. Pintard
THE WILLIAM HERBERT CO.

[Letterhead]

March 29, 1994

Mr. Mike Dale
Administration Manager
gad.inc
6450 Via Real
Carpinteria, CA 93013

Dear Mike:

In accordance to your lease, specifically Page 10, Section 14, Right of First Refusal to lease, Matco Enterprises Inc. formally notifies you of its intention to offer for lease Suite G.

Suite G is currently under lease with Amvox/Voice-Tel. This lease will terminate July 9, 1994. This space will be available from Matco Enterprises, Inc. to qad.inc on July 10, 1994. Matco Enterprises, Inc. will lease to qad.inc the premises for \$.1263 per square foot NNN per month. The term can be coterminus with other space currently occupied by qad.inc in Suites I,K,L.

Mike, if qad.inc is interested in remaining in Suite G after it's sub-lease with Amvox/Voice-Tel expires I suggest that we'll formalize negotiations and proceed.

Thank you very much for your attention to this matter, I look forward to your response.

Sincerely,

/s/ William H. Pintard

William H. Pintard

QAD.INC
1994

JANUARY:

Suite	Rent	Operating Cost	Total Due	Total Paid
- - - - -	- - - -	- - - -	- - -	- - - -
Suites I, K, L	\$15,256.25	\$6,224.55	\$21,480.80	\$21,480.80
Suite C & H	\$5,633.75	\$2,298.57	\$7,932.32	\$7,932.32
	- - - - -	- - - - -	- - - - -	- - - - -
TOTALS:	\$21,640.00	\$8,523.12	\$29,413.12	\$29,413.12
	- - - - -	- - - - -	- - - - -	- - - - -

FEBRUARY:

Suite	Rent	Operating Cost	Total Due	Total Paid
- - - - -	- - - -	- - - -	- - -	- - - -
Suites I, K, L	\$15,256.25	\$6,224.55	\$21,480.80	\$21,480.80
Suite C	\$3,891.25	\$1,587.63	\$5,478.88	\$7,932.32
Basement Room C	\$750.00		\$750.00	\$0.00
	- - - - -	- - - - -	- - - - -	- - - - -
TOTALS:	\$19,897.50	\$7,812.18	\$27,709.68	\$29,413.12
	- - - - -	- - - - -	- - - - -	- - - - -

Amount Due:	\$27,709.68
Amount Paid:	(\$29,413.12)
	- - - - -
Credit Due:	\$1,703.44

MARCH:

Suite	Rent	Operating Cost	Total Due	Total Paid
- - - - -	- - - -	- - - -	- - -	- - - -
Suites I, K, L	\$15,720.35	\$8,421.45	\$24,141.80	\$21,480.80
Suite C	\$4,009.63	\$2,147.97	\$6,157.60	\$7,932.32
Basement Room C	\$750.00		\$750.00	\$0.00
	- - - - -	- - - - -	- - - - -	- - - - -

TOTALS:	\$20,479.98	\$10,569.42	\$31,049.40	\$29,413.12
		Less Credit:	(\$1,703.44)	-----
			-----	-----
			\$29,345.96	

Amount Due:	\$29,345.96
Amount Paid:	(\$29,413.12)

Credit Due:	\$67.16

FIFTH AMENDMENT TO OFFICE LEASE

This Fifth Amendment To Office Lease is entered into between Matco Enterprises, Inc., a Washington corporation, hereinafter referred to as "Landlord", and gad. inc., a California corporation, hereinafter referred to as "Tenant".

This Fifth Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease dated November 30, 1992, for Suites I, K, and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993, whereby Landlord leased Suites C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Landlord and Tenant entered into a Second Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Suite J to Tenant on the terms and conditions of the Second Amendment To Office Lease.

D. Landlord and Tenant entered into a Third Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Room B in the basement and temporarily leased Room C in the basement on the terms and conditions of the Third Amendment To Office Lease.

E. Landlord and Tenant entered into a Fourth Amendment to Office Lease dated February 15, 1994, whereby Landlord and Tenant agreed the office lease would terminate as to Suite H only.

F. The Tenant desires to lease additional space at 5464 Carpinteria Avenue, Suites G and E, specifically, and

1.

Landlord has agreed to lease Suites G and E on the terms and conditions of this Fifth Amendment to Office Lease.

IT IS AGREED:

1. ADDITIONAL LEASED PREMISES.

The Additional Leased Premises hereunder is Suites E and G located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and identified on the floor plan attached hereto as Exhibit "A". Said Additional Leased Premises contain 1,511 net rentable square feet in Suite E and 2,283 net rentable square feet in Suite G. The reference to the term Premises in the Office Lease shall also apply to the Additional Leased Premises as used in this Fifth Amendment To Office Lease.

2. TERM OF LEASE.

The term of this Lease as to Suites E and G shall commence September 1, 1994 and shall terminate five (5) years after commencement. Tenant acknowledges that the term of the Office Lease as to Suites E and G shall extend beyond the term of the Office Lease as to the other suites lease thereunder.

3. RENT.

(a) Tenant shall pay to Landlord, as minimum monthly rent without deduction, set off, prior notice or demand, the sum of \$4,791.82 (\$1.263/per

square foot x 3,794 of net rentable square footage for Suites E and G) together with an additional amount due to the annual cost of living adjustment on January 1, 1995. The rent provided for herein shall be paid in advance on the first day of each month commencing on date of commencement of the term of the Lease for the Additional Leased Premises and continuing during the five (5) year term of this lease as to Suites E and G, which rent shall be in

2.

addition to rent provided for in the Office Lease, and the First, Second, Third and Fourth Amendments to Office Lease.

(b) The minimum monthly rent shall be subject to adjustments as provided for in Paragraph 5 (b) of the Office Lease.

4. SECURITY DEPOSIT.

Simultaneously with the execution of the Fifth Amendment To Office Lease, Tenant shall deposit with the Landlord \$6,954.40 which includes the sum of \$4,791.82 representing the additional security deposit for the Additional Leased Premises, Suites E and G, and the sum of \$2,162.58 representing the payment towards the first month's operating costs and real property taxes.

5. PROPERTY TAXES AND OPERATING COSTS.

Tenant shall pay monthly to Landlord as additional rent its proportionate share of property taxes, and operating costs which shall be computed in the manner provided for the Paragraphs 8, 9 and 10 of the Office Lease taking into account the additional net rentable square footage occupied by the Tenant in the Additional Leased Premises.

6. TENANT IMPROVEMENTS.

Tenant improvements for the Additional Leased Premises, Suites E and G, shall be completed according to the following terms and conditions:

(a) Tenant shall provide Landlord with plans and specifications for the tenant improvements for Suites E and G. Landlord shall have the right to approve said plans and related specifications, which approval shall not be unreasonably withheld. Landlord shall cause the construction of the tenant

3.

improvements pursuant to said approved plans and related specifications.

(b) Landlord shall bear the cost of such tenant improvements up to an amount equal to \$18/per square foot of net rentable space of Suites E and G of 3,794 square feet for a total tenant improvement allowance of \$68,292.00. The cost of tenant improvements in excess of \$68,292.00 shall be borne by Tenant and shall be paid upon substantial completion of the tenant improvements. The cost of the tenant improvements shall include all "hard" and "soft" cost associated with the construction of the tenant improvements as those terms are defined in Paragraph 1(b) of the Office Lease. Landlord shall complete the tenant improvements in a good and workmanlike manner.

(c) Tenant shall not be entitled to any tenant improvement allowance if the tenant improvements are not requested, and plans and specifications provided to Landlord after September 1, 1995.

(d) The construction of tenant improvements for Suites E and G shall be done concurrently with the construction of tenant improvements for Suite C. In the event the plans and specifications provided to Landlord for approval do not include all three suites (i.e., Suites E, G and C), the Tenant will be

deemed to have waived the right to have the Landlord construct tenant improvements for the suites for which plans have not been provided. Nothing in this amendment shall change the amount of the tenant improvement allowance for Suite C provided for in the First Amendment to Office Lease.

(e) During the period of construction of tenant improvements, rent shall be abated for a period not to exceed forty-five (45) days from the date construction starts on the tenant improvements. Rent on each suite shall recommence

4.

forty-five (45) days from the start of construction or upon the written notice from Landlord to Tenant of the substantial completion of the tenant improvements for that suite, whichever shall first occur.

7. ADDITIONAL TERMS.

Except where inconsistent with this Fifth Amendment To Office Lease, the terms and conditions of the Office Lease, Suites E and G as amended in the First, Second, Third and Fourth Amendments to Office Lease, shall apply equally to the Additional Leased Premises, as to Suites I, L, K, C and J.

IN WITNESS WHEREOF, the parties have executed this Fifth Amendment To Office Lease on Sept 12, 1994.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington Corporation

By: /s/ Meriko Tamaki

MERIKO TAMAKI, formerly known as
Meriko Tamaki Wong, President

TENANT:

qad. inc

By: /s/ Pam Lopker

PAM LOPKER, President

By: /s/ Karl Lopker

KARL LOPKER, Vice-President

APPROVED AS TO FORM AND CONTENT:
THE WILLIAM HERBERT COMPANY

By: /s/ William Pintard

WILLIAM PINTARD

5.

Exhibit A

[FLOOR PLAN]

SIXTH AMENDMENT TO OFFICE LEASE

This Sixth Amendment To Office Lease is entered into between Matco Enterprises, Inc., a Washington corporation, hereinafter referred to as "Landlord", and gad. inc., a California corporation, hereinafter referred to as "Tenant".

This Sixth Amendment To Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease dated November 30, 1992, for Suites I, K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993, whereby Landlord leased Suites C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Landlord and Tenant entered into a Second Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Suite J to Tenant on the terms and conditions of the Second Amendment To Office Lease.

D. Landlord and Tenant entered into a Third Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Room B in the basement and temporarily leased Room C in the basement on the terms and conditions of the Third Amendment To Office Lease.

E. Landlord and Tenant entered into a Fourth Amendment to Office Lease dated February 15, 1994, whereby Landlord and Tenant agreed the Office Lease would terminate as to Suite H only.

F. Landlord and Tenant entered into a Fifth Amendment to Office Lease dated September 12, 1994, whereby Landlord leased Suites G and E to Tenant on the terms and conditions of the Fifth Amendment to Office Lease.

G. The Tenant desires to lease additional space at 5464 Carpinteria Avenue, Suites A, B, D, F, H, and Basement Room A, specifically, and Landlord has agreed to lease Suites A, B, D, F, H and Basement Room A on the terms and conditions of this Sixth Amendment to Office Lease.

1.

IT IS AGREED:

1. ADDITIONAL LEASED PREMISES.

The Additional Leased Premises hereunder is Suites A, B, D, F, H and Basement Room A located at 5464 Carpinteria Avenue, in the City of Carpinteria, County of Santa Barbara, State of California, and identified on the floor plan attached hereto as Exhibit "A". Said Additional Leased Premises contain 5,356 net rentable square feet in Suite A, 2,752 net rentable square feet in Suite B, 3,518 net rentable square feet in Suite D, 3,044 net rentable square feet in Suite F, 1,394 net rentable square feet in Suite H, and 1920 net rentable square feet in Basement Room A. The reference to the term Premises in the Office Lease shall also apply to the Additional Leased Premises as used in this Sixth Amendment To Office Lease.

2. TERM OF LEASE FOR SUITES A, B, D, F, AND H.

The term of this Lease as to Suites A, B, D, F, and H shall commence January 1, 1997 and shall terminate five (5) years after commencement, subject to extension pursuant to the provisions of Paragraph 7(g). Tenant

acknowledges that the term of the Office Lease as to Suites A, B, D, F, and H shall extend beyond the term of the Office Lease as to other suites lease thereunder.

3. TERM OF LEASE FOR BASEMENT ROOM A.

The term of this Lease as to Basement Room A shall commence December 1, 1996 and shall terminate five (5) years and one (1) month after commencement, subject to extension pursuant to the provisions of Paragraph 7(g). Tenant acknowledges that the term of the Office Lease as to Basement Room A shall extend beyond the term of the Office Lease as to other suites lease thereunder.

4. RENT FOR SUITES A, B, D, F, AND H.

(a) Tenant shall pay to Landlord, as minimum monthly rent without deduction, set off, prior notice or demand, an amount equal to the product of the "Rental Rate", times the "Square Footage - Suite A, B, D, F and H". As used herein, the term "Rental Rate" is the same as the monthly charge per square foot of net rentable Square Footage for Suites I, K, L, C, H and J (currently \$1.275 per square foot of net rentable Square Footage which is subject to cost of living adjustment). As used herein, the term "Square Footage - Suites A, B, D, F and H" shall mean 16,064 net rentable square footage in Suites A, B, D, F & H. The rent provided for herein shall be

2.

paid in advance on the first (1st) day of each month commencing on date of commencement of the term of the Lease for the Additional Leased Premises and continuing during the five (5) year term of this Lease as to Suites A, B, D, F, and H, which rent shall be in addition to rent provided for in the Office Lease, and the First, Second, Third, Fourth and Fifth Amendments to Office Lease.

(b) The monthly rent shall be subject to adjustments as provided for in Paragraph 5(b) of the Office Lease.

5. RENT FOR BASEMENT ROOM A.

(a) Tenant shall pay to Landlord, as minimum monthly rent without deduction, set off, prior notice or demand, the sum of \$1,920.00 (One Thousand Nine Hundred Twenty Dollars) (\$1.00/per square foot x 1920 of net rentable square footage for Basement Room A) together with an amount to amortize the cost of leasehold improvements for Basement Room A as set forth in Paragraph 5(c). The rent provided for herein shall be paid in advance on the first day of each month commencing on date of commencement of the term of the Lease for the Additional Leased Premises and continuing during the five (5) year and one (1) month term of this lease as to Basement Room A, which rent shall be in addition to rent provided for in the Office Lease, and the First, Second, Third, Fourth and Fifth Amendments to Office Lease.

(b) The minimum monthly rent shall be subject to adjustments as provided for in Paragraph 5(b) of the Office Lease commencing with the adjustment scheduled for January 1, 1998.

(c) Commencing with the first (1st) day of the month following the substantial completion of the tenant improvements for Basement Room A, the rent as to Basement Room A shall be increased by an amount equal to the total cost of the leasehold improvements for Basement Room A divided by the number of months remaining on the term of the Lease as to Basement Room A as of the first (1st) of the month following substantial completion of the improvements for Basement Room A.

6. PAYMENT OF FIRST MONTH'S RENT.

Simultaneously with the execution of the Sixth Amendment To Office

Lease, Tenant shall deposit with the Landlord \$33,192.00 (Thirty-Three Thousand One Hundred Ninety-Two Dollars) representing the first month's rent for the Additional Leased Premises, Suites A, B, D, F, H and

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Basement Room A, and the sum of \$10,790.40 (Ten Thousand Seven Hundred Ninety Dollars and Forty Cents) representing the payment towards the first (1st) month's operating costs and real property taxes.

7. PROPERTY TAXES AND OPERATING COSTS.

Tenant shall pay monthly to Landlord as additional rent its proportionate share of property taxes, and operating costs which shall be computed in the manner provided for in Paragraphs 8, 9 and 10 of the Office Lease, taking into account the additional net rentable square footage occupied by the Tenant in the Additional Leased Premises.

8. TENANT IMPROVEMENTS.

Tenant improvements for the Additional Leased Premises, Suites A, B, D, F, H, and Basement Room A, shall be completed according to the following terms and conditions:

(a) Tenant shall provide Landlord with plans and specifications for the Tenant improvements for Suites A, B, D, F, H, and Basement Room A. Landlord shall have the right to approve said plans and related specifications, which approval shall not be unreasonably withheld. Landlord shall cause the construction of the Tenant improvements pursuant to said approved plans and related specifications.

(b) Landlord shall bear the cost of such Tenant improvements up to an amount equal to \$10 per square foot of net rentable space of Suites A, B, D, F, and H, 16,064 square feet, for a total tenant improvement allowance for Suites A, B, D, F, and H of \$160,640.00 (One Hundred Sixty Thousand Six Hundred Forty Dollars). The cost of tenant improvement for Suites A, B, D, F, and H in excess of \$160,640.00 (One Hundred Sixty Thousand Six Hundred Forty Dollars) shall be borne by Tenant and shall be paid upon substantial completion of the Tenant improvements. The cost of the Tenant improvements shall include all "hard" and "soft" cost associated with the construction of the Tenant improvements as those terms are defined in Paragraph 1(b) of the Office Lease. Landlord shall complete the Tenant improvements in a good and workmanlike manner.

(c) Landlord shall bear the cost of such Tenant improvements for Basement Room A, subject to amortization of these improvement costs as additional rent for Basement Room A pursuant to Paragraph 5(c). The cost of the Tenant improvements shall include all "hard" and

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"soft" cost associated with the construction of the Tenant improvements as those terms are defined in Paragraph 1(b) of the Office Lease. Landlord shall complete the Tenant improvements in a good and workmanlike manner.

(d) Tenant shall not be entitled to any Tenant improvement allowance if the Tenant improvements are not requested, and plans and specifications provided to Landlord prior to December 31, 1999.

(e) The construction of Tenant improvements for the Additional Leased Premises pursuant to this Sixth Amendment to Office Lease shall be done in not more than two phases.

(f) During the period of construction of Tenant improvements, rent shall be abated on the portion of the Additional Leased Premises, Suites A,B,D,F,H, and/or Basement Room A for which Tenant improvements are being constructed, for a period not to exceed sixty (60) days from the date construction starts on the Tenant improvements. Rent, on the portion of the Additional Leased Premises for which Tenant improvements are being constructed, shall recommence sixty (60) days from the start of construction or upon the written notice from Landlord to Tenant of the substantial completion of the Tenant improvements for that suite or suites, whichever shall first occur.

(g) The sum of the number of days of rent abatement for each phase of construction of Tenant improvements divided by the number of phases in which Tenant improvements are constructed shall be referred to herein as the Average Rent Abatement Period. The term of the Lease shall be extended by the number of days equal to the Average Rent Abatement Period.

9. DELETION OF RIGHT OF FIRST REFUSAL TO LEASE.

The right of first refusal to lease provided for in Paragraph 14 of the Office Lease dated November 30, 1992, is deleted in its entirety and shall be of no further force and effect.

10. MODIFIED OPTION TO RENEW.

The option to renew lease provided for in Paragraph 16 of the Office Lease dated November 30, 1992, is deleted in its entirety and replaced with the following:

(a) Provided that Tenant is not in default on any term of the Office Lease dated November 30, 1992, and the Amendments thereto, Tenant shall have the option to renew the Lease

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as to Suites I,K,L,C,J and Basement Room B for four (4) renewal periods. The first three (3) renewal periods (which would, if exercised, commence on March 9, 1998, March 9, 1999 and March 9, 2000, respectively) shall be for a period of one (1) year each. The fourth (Th) renewal period (which would, if exercised, commence on March 9, 2001) shall be for a period of two (2) years. Tenant shall notify Landlord in writing of its exercise of the first one (1) year renewal option at least 180 (one hundred eighty) days prior to the expiration of the initial Lease term, and for each subsequent renewal period, Tenant shall notify Landlord in writing of its exercise of the next renewal option at least 180 (one hundred eighty) days prior to the expiration of the then current renewal period. The rental rate for each renewal period shall be at the then current market rate, or the rental rate of the previous year together with the CPI adjustment, pursuant to Paragraph 5(b) of the Office Lease, whichever is greater. All other terms of the Lease shall remain the same during the renewal period.

(b) Provided Tenant is not in default on any term of the Office Lease dated November 30, 1992, and any Amendments thereto, Tenant shall have the option to renew the Lease as to Suites E and G for three (3) renewal periods. The first (1st) renewal period (which would, if exercised, commence on August 11, 1999 and September 11, 1999 for Suites G and E, respectively) shall be for a period of one (1) year. The second (2nd) renewal period (which would, if exercised, commence on August 11, 2000 and September 11, 2000 for Suites G and E, respectively) shall be for a period of two (2) years. The third (3rd) renewal period (which would, if exercised, commence on August 11, 2002 and September 11, 2002 for Suites G and E, respectively) shall be for period of two (2) years.

Tenant shall notify Landlord in writing of its exercise of the first one (1) year renewal option at least 180 (one hundred eighty) days prior to the expiration of the initial Lease term, and for each subsequent renewal period, Tenant shall notify Landlord in writing of its exercise of the

next renewal option at least 180 (one hundred eighty) days prior to the expiration of the then current renewal period. The rental rate for each renewal period shall be at the then current market rate, or the rental rate of the previous year together with the CPI adjustment, pursuant to Paragraph 5(b) of the Office Lease, whichever is greater. All other terms of the Lease shall remain the same during the renewal period.

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(c) Provided Tenant is not in default on any term of the Office Lease dated November 30, 1992 and any Amendments thereto, Tenant shall have the option to renew the Lease, after the expiration of the term including any extension for rent abatement pursuant to Paragraph 7(g), as to Suites A,B,D,F,H and Basement Room A for four (4) renewal periods. The first (1st) renewal period shall be for a period of two (2) years. The last three renewal periods shall be for one (1) year each.

Tenant shall notify Landlord in writing of its exercise of the first one (1) year renewal option at least 180 (one hundred eighty) days prior to the expiration of the initial Lease term, and for each subsequent renewal period, Tenant shall notify Landlord in writing of its exercise of the next renewal option at least 180 (one hundred eighty) days prior to the expiration of the then current renewal period. The rental rate for each renewal period shall be at the then current market rate, or the rental rate of the previous year together with the CPI adjustment, pursuant to Paragraph 5(b) of the Office Lease, whichever is greater. All other terms of the Lease shall remain the same during the renewal period.

11. CONTROL OF BUILDING.

So long as Tenant remains the sole Tenant of the building at 5464 Carpinteria Avenue, Carpinteria, California, Tenant shall have the right to install, as part of the leasehold improvements, a perimeter security system, subject to the approval by Landlord pursuant to the Landlord's authority to approve Tenant improvements. Tenant shall supply access codes or devices to Landlord's property manager, Landlord's president, and Landlord's janitorial service in order that they may carry out their rights and obligations of inspection and maintenance.

12. ADDITIONAL TERMS.

Except where inconsistent with this Sixth Amendment To Office Lease, the terms and conditions of the Office Lease, as amended in the First, Second, Third, Fourth, and Fifth Amendments to Office Lease, shall apply equally to the Additional Leased Premises, as to the remainder of the building.

7.

IN WITNESS WHEREOF, the parties have executed this Sixth Amendment To Office Lease on October 30, 1996.

LANDLORD:

MATCO ENTERPRISES, INC., a
Washington corporation

By /s/ Meriko Tamaki

MERIKO TAMAKI, formerly known as
Meriko Tamaki Wong, President

TENANT:

qad. inc

By /s/ Karl Lopker
/s/ Douglas Marsh

KARL LOPKER, CEO

APPROVED AS TO FORM AND CONTENT:

THE WILLIAM HERBERT COMPANY

By /s/ William Pintard

WILLIAM PINTARD

STANDARD INDUSTRIAL LEASE - MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, November 30, 1993, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phases I & II (46,198 s.f. + 14,000 s.f. = 60,198 s.f) and described as 6430 Via Real, Suite's 3 thru 8 (building C), Carpinteria, CA consisting of approximately 9,500 square feet (see exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 29 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles." Lessee shall have the non-exclusive right to use the lot located at 6410 Via Real for parking until such time that construction commences.

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS - DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS - LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or

permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS - RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for fifty-six (56) months commencing on 5/1/94 or upon receipt of final approval from City of Carp. and ending on in any event December 31, 1998 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$11,875.00. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay to Lessor upon execution hereof \$11,875.00 as Base Rent for first months rent. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 15.78 percent. guaranteed not to exceed \$.22 per s.f. for the first 12 mos. of occupancy

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

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/s/ PML

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(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of

each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$11,875.00 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing and marketing computer software, & training class and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use

by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. SEE ADDENDUM.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including,

without limiting the generally of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panel, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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/s/ PML

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements,

additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full

replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof

against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraph 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's Intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements,

as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real

property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share of a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall

constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may

proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

Initials: /s/ KL

/s/ PML

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to _____
Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate

agreement between Lessor and said broker(s), the sum of \$_____, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

Initials: /s/ KL

/s/ PML

MULTI TENANT--MODIFIED NET

- -C- American Industrial Real Estate Association 1981

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgage, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent.

Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of the Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i)

during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

Initials: /s/ KL

/s/ PML

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

48. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park

q.a.d., Inc., a California Corporation

By /s/ William D. Wright

By /s/ Pam Lopker

Pam Lopker, its President

By

By /s/ Karl Lopker

Karl Lopker, its Vice President

Executed on June 20 - 94

(Corporate Seal)

Executed on 1/13/94

(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street

Santa Barbara, California 93101

ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes November 30, 1993, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for two (2) additional successive periods of three (3) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of lease anniversary date, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the change, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = \frac{A \times B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable lease Premises in the surrounding geographical area. Prevailing market rate

shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee understands and agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT "B". Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises to do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions

arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. The term of the sublease shall not exceed the term of the master lease.

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

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IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ William D. Wright

Dated: January 20, 1994

LESSEE:

BY: /s/ Pam Lopker Dated: 1/13/94

Pam Lopker, its President

BY: /s/ Karl Lopker Dated: 1/13/94

Karl Lopker, its Vice President

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Addendum to Lease
Number Two

Building "C"

Lessor shall spend up to \$25.00 per square foot of leased space being remodeled (suites 6, 7 & 8).

Lessee shall pay in cash for any tenant improvements requested by Lessee in excess of \$25.00 per square foot.

LESSOR:

William D. Wright dba
South Coast Business Park

By /s/ William D. Wright January 20, 1994

Dated

LESSEE:

q.a.d., Inc., a California Corporation

By /s/ Pam Lopker 1/13/94

Pam Lopker, President Dated

By /s/ Karl Lopker 1/13/94

Karl Lopker, Vice President Dated

EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK

STANDARD INDUSTRIAL LEASE -- MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, November 30, 1993, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phases I & II (46,198 s.f. + 14,000 s.f. = 60,198 s.f.) and described as 6450 Via Real, (building E), Carpinteria, California consisting of approximately 12,265 square feet (see exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 36 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles." Lessee shall have the non-exclusive right to use the lot located at 6410 Via Real for parking until such time that construction commences.

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS -- DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or

permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for fifty-nine (49) months commencing on December 1, 1993 and ending on December 31, 1997 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$15,331.25. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay to Lessor upon execution hereof \$15,331.25 as Base Rent for December 1, 1993 thru December 1, 1993. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 20.37 percent. guaranteed not to exceed \$.22 per s.f. for the first 12 mos. of occupancy

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

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/s/ PML

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(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's

payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$15,331.25 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the Initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing and marketing computer software, & training class and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will

tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. See Addendum.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain,

at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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/s/ PML

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any

or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

SEE PAGE 8 AFTER ARTICLE NUMBER 49

8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire,

extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that

existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's Intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day

period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June

1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share of a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this

Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first

exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as

defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to _____
Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$_____, for

brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations

to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

Initials: /s/ KL

/s/ PML

MULTI TENANT--MODIFIED NET
- -C- American Industrial Real Estate Association 1981

27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgage, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be

obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of the Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of

default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

Initials: /s/ KL

/s/ PML

43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park

q.a.d., Inc., a California Corporation

By /s/ William D. Wright

By /s/ Pam Lopker

Pam Lopker, its President

By

By /s/ Karl Lopker

Karl Lopker, its Vice President

Executed on June 20 - 94

(Corporate Seal)

Executed on 1/13/94

(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street

Santa Barbara, California 93101

EXHIBIT "B"

[MAP]

ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes November 30, 1993, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and c.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for two (2) additional successive periods of three (3) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of December 1, 1994, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the change, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = \frac{A \times B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable

lease Premises in the surrounding geographical area. Prevailing market rate shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee understands and agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT "B". Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause.

Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. The term of the sublease shall not exceed the term of the master lease.

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

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IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ William D. Wright

Dated: January 20, 1994

LESSEE:

By /s/ Karl Lopker

1/13/94

Karl Lopker, Vice President

Dated

EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK

STANDARD INDUSTRIAL LEASE -- MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, November 30, 1993, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phase II (14,000 square feet) and described as 6460 Via Real, Suite's 1 thru 5 (building F), Carpinteria, CA consisting of approximately 8,625 square feet (see Exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 26 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles." Lessee shall have the non-exclusive right to use the lot located at 6410 Via Real for parking until such time that construction commences.

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS -- DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or

permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for seventy-one (71) months commencing on 2/1/94 or upon receipt of final approval from City of Carp. and ending on in any event December 31, 1999 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$10,781.25. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay Lessor upon execution hereof \$10,781.25 as Base Rent for first months rent. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 62.5/Phase II* percent. guaranteed not to exceed \$.22 per s.f. for the first 12 mos. of occupancy.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

*Lessee's share is defined for purposes of this lease to include Phase I & II as ___ (46,198 s.f. + 14,000 s.f. = 60,198 s.f.)

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/s/ PML

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(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid,

Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$10,781.25 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing and marketing computer software, & training class and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the

term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. SEE ADDENDUM.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of

repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generally of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panel, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure

completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property,

fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center

arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraph 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense,

repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the

nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the

approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to _____

Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$_____, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interests in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on

any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either

voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

Initials:/s/ KL

/s/ PML

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the

liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park

q.a.d., Inc., a California Corporation

By /s/ William D. Wright

By /s/ Pam Lopker

Pam Lopker, its President

By

By /s/ Karl Lopker

Karl Lopker, its Vice President

Executed on Jan 20 - 94

Executed on 1/13/94

(Corporate Seal)

(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street

Santa Barbara, California 93101

ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes November 30, 1993, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for two (2) additional successive periods of three (3) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of lease anniversary date, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the change, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = \frac{A \times B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable lease Premises in the surrounding geographical area. Prevailing market rate

shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. Agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT "B". Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises to do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and

ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. The term of the sublease shall not exceed the term of the master lease.

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

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IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ William D. Wright

Dated: January 20, 1994

LESSEE:

q.a.d., Inc., a California Corporation

BY: /s/ Pam Lopker Dated: 1/13/94

Pam Lopker, its President

BY: /s/ Karl Lopker Dated: 1/13/94

Karl Lopker, its Vice President

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Addendum to Lease
Number Two

Building "F"

Lessor shall spend up to \$30.00 per square foot of leased space being remodeled (suites 6, 7 & 8).

Lessee shall pay in cash for any tenant improvements requested by Lessee in excess of \$30.00 per square foot.

LESSOR:

William D. Wright dba
South Coast Business Park

By /s/ William D. Wright January 20, 1994

Dated

LESSEE:

q.a.d., Inc., a California Corporation

By /s/ Pam Lopker 1/13/94

Pam Lopker, President Dated

By /s/ Karl Lopker 1/13/94

Karl Lopker, Vice President Dated

EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK

6410-6460 Via Real, Carpinteria, California

STANDARD INDUSTRIAL LEASE -- MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, September 8, 1995, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phase I & II (46,198 s.f. + 14,000 s.f. = 60,198 s.f) and described as 6440 Via Real, Suite's 7 & 8 (building D), Carpinteria, CA consisting of approximately 2,304 square feet (see exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 4 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS -- DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which

consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for Fifteen (15) months commencing on October 1, 1995 and ending on December 31, 1996 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$2,880.00. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods. Lessee shall pay to Lessor upon execution hereof \$2,880.00 as Base Rent for October 1, 1995 thru October 31, 1995. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to

Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 3.83 percent.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

Initials:/s/ DM

/s/ JWB

MULTI TENANT--MODIFIED NET

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(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's share as indicated on said

statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$2,880.00 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing and marketing computer software, and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. See Addendum.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating

and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor

in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy

of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be

liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraph 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent

assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any

obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee

within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to N/A Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$ N/A, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee

is due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e)

(without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

Initials:/s/ DM

/s/ JWB

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

48. LESSOR OPTION TO RELOCATE LESSEE. At any time after Lessee's execution of this Lease, Lessor shall have the right, upon providing Lessee thirty (30) days notice in writing, to provide and furnish Lessee with space elsewhere in the building of approximately the same size as said Premises, and to move and place Lessee in such new space at Lessor's expense. In the event Lessor moves Lessee to such new space, then this Lease and each and all of the terms and covenants and conditions hereof shall thereupon remain in full force and effect and be deemed applicable to such new space except that a revised Exhibit "A" shall become a part of this Lease and shall reflect the location of the new space and Paragraphs 4.1, 4.2 and 5 shall be amended to show correct data. Should Lessee refuse to permit Lessor to move Lessee to such new space at the end of said thirty (30) day period, Lessor shall have the right to terminate this Lease by notice to such effect given to Lessee in writing within ten (10) days following the end of said thirty (30) day period, which termination shall be effective sixty (60) days after the date of the original relocation by Lessor.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent,

in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park
- -----

q.a.d., Inc. a California Corporation

By /s/ Jeanne Wright - [Illegible]

By -----
Pam Lopker, President

By -----

By /s/ KL Douglas Marsh

Karl Lopker, Vice President

Executed on 10/10/95

(Corporate Seal)

Executed on -----
(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street
- -----

Santa Barbara, California 93101
- -----

- -----

ADDENDUM TO LEASE

THIS ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes September 8, 1995, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for three (3) additional successive periods of one (1) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of October 1, 1996, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = A \times \frac{B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable

lease Premises in the surrounding geographical area. Prevailing market rate shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee understands and agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT. Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessee shall not install on the Premises any specialized equipment requiring the use of a power source (including, but not limited to, computer hardware or software) without the prior written consent

of Lessor. Lessor shall give its consent to such installation provided the conditions contained herein are satisfied. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. Also, it is a requirement that Lessor receive seventy five percent (75%) of any consideration or increase in rent received or to be --- over

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

H. ABOVE-STANDARD TENANT IMPROVEMENTS. In addition to the construction of tenant improvements as set forth in Paragraph C above, Lessor and Lessee agree that Lessor shall also construct those certain above-standard tenant improvements set forth in the plans and specifications attached hereto as Exhibit "C". Lessor and Lessee have estimated to the best of their ability the total construction costs Lessor shall incur in the construction of such above-standard improvements and Lessee has approved such estimate as set forth in Exhibit "C". Provided however, Lessee understands and agrees that this is an estimate only, and that the total actual construction costs for such above-standard improvements may exceed the estimate. Nevertheless, Lessee agrees that the Base Rent payable pursuant to Paragraph 4 of the Lease shall be adjusted as more particularly set forth below, based on the total actual construction costs for such above-standard improvements and not the estimated costs. Lessor shall pay all costs incurred in connection with the construction of the above-standard improvements including but not limited to actual material costs, costs of installation, architectural and/or engineering fees, governmental fees (e.g. building permit fees), the cost of painting and other finish work, and delivery fees. Following completion of construction and when such costs are known to Lessor, Lessor shall provide Lessee with a breakdown of such costs, and a total for the actual costs of the above-standard improvements. The minimum monthly rent payable by Lessee over the initial term of this Lease shall then be increased by the quotient derived by dividing the total actual cost of construction of

the above-standard improvements by the number of months in the initial Lease Term. Solely as an example, assume:

total cost of construction	=	\$50,000
months in the initial Lease Term	=	36
quotient	=	\$1,388.89 (\$50,000 + 36)
original Base Rent	=	\$3,500.00
adjusted Base Rent	=	\$4,888.89 (\$3,500.00 + \$1,388.89).

Lessor shall notify Lessee promptly upon determination of the adjusted Base Rent. By its execution of this Addendum to Lease, Lessee acknowledges its liability for payment of such adjusted Base Rent notwithstanding the fact that such adjusted amount is not capable of determination as of the date of execution hereof. Lessee shall have the right to request change orders as set forth in Paragraph C above. Following completion of construction and installation of the above-standard improvements, Lessee shall also have the inspection rights set forth in Paragraph C above. Subject to Lessor's duty to correct defects arising out of improper installation of improvements, Lessee's sole and exclusive remedy for alleged product defects in such above-standard improvements shall be a right of action against the manufacturer guaranteeing the allegedly defective product. Lessor shall assign to Lessee all warranties and guaranties of the manufacturers of all above-standard improvements installed in the Premises. Notwithstanding the adjusted Base Rent as set forth herein, in the event that Lessee is in default of any of its obligations under this Lease, then in addition to any other rights or remedies which Lessor may require that Lessee pay the unpaid balance of the total actual costs of construction of the above standard improvements immediately upon written notice. Upon receipt by Lessor from Lessee of such unpaid balance, the Base Rent payable by Lessee shall be reduced by the quotient described above.

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IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ Jean Wright-Boutolazs, Agent Dated: 10/10/95

LESSEE:

q.a.d., Inc., a California Corporation

BY: _____ Dated: _____
Pam Lopker, President

BY: /s/ Douglas Marsh Dated: Sep. 28, 1995

Karl Lopker, Vice President

EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK
6410-6460 Via Real, Carpinteria, California

STANDARD INDUSTRIAL LEASE -- MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, September 8, 1995, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phases I & II (46,198 s.f. + 14,000 s.f. = 60,198 s.f) and described as 6440 Via Real, Suite's 9 & 10 (Building D), Carpinteria, CA consisting of approximately 2,304 square feet (see Exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 4 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS -- DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which

consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS -- CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for Fifteen (15) months commencing on October 1, 1995 and ending on December 31, 1996 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$1,843.20. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay to Lessor upon execution hereof \$1,843.20 as Base Rent for October 1, 1995 thru October 31, 199_. Rent for any period during the term

hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 3.83 percent.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

Initials:/s/ DM

/s/ JWB

MULTI TENANT--MODIFIED NET

- -C- American Industrial Real Estate Association 1981

(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during

said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$1,843.20 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing and marketing compute software and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. See Addendum.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the

Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to

make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition,

Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other property of Lessee, Lessee's employees, invitees, customers, or any other

person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of

option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction,

any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share of a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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/s/ JWB

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of

exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its

obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of

Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to
N/A Licensed real estate
broker(s), a fee as set forth in a separate agreement between Lessor and
said broker(s), or in the event there is no separate agreement between Lessor
and said broker(s), the sum of \$ N/A , for
brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also
on behalf of any person, corporation, association, or other entity having an

ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interest in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by

Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no

circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of the Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time

after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

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/s/ JWB

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

48. LESSOR OPTION TO RELOCATE LESSEE. At any time after Lessee's execution of this Lease, Lessor shall have the right, upon providing Lessee thirty (30) days notice in writing, to provide and furnish Lessee with space elsewhere in the building of approximately the same size as said Premises, and to move and place Lessee in such new space at Lessor's expense. In the event Lessor moves Lessee to such new space, then this Lease and each and all of the terms and covenants and conditions hereof shall thereupon remain in full force and effect and be deemed applicable to such new space except that a revised Exhibit "A" shall become a part of this Lease and shall reflect the location of the new space and Paragraphs 4.1, 4.2 and 5 shall be amended to show correct data. Should Lessee refuse to permit Lessor to move Lessee to such new space at the end of said thirty (30) day period, Lessor shall have the right to terminate this Lease by notice to such effect given to Lessee in writing within ten (10) days following the end of said thirty (30) day period, which termination shall be effective sixty (60) days after the date of the original relocation by Lessor.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard

form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park
- -----

q.a.d., Inc.
a California Corporation

By /s/Jeanne Wright Bartolyn, Agent

By -----
Pam Lopker, President

By -----

By /s/ Kl Douglas Marsh

Karl Lopker, Vice President

Executed on 10/10/95

(Corporate Seal)

Executed on -----
(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street
- -----

Santa Barbara, California 93101
- -----

- -----

ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes September 8, 1995, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for three (3) additional successive periods of one (1) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of October 1, 1996, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = \frac{A \times B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period

shall be the then prevailing market rate for a triple net lease of comparable lease Premises in the surrounding geographical area. Prevailing market rate shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee understands and agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT. Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises to do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessee shall not install on the Premises any

specialized equipment requiring the use of a power source (including, but not limited to, computer hardware or software) without the prior written consent of Lessor. Lessor shall give its consent to such installation provided the conditions contained herein are satisfied. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. Also, it is a requirement that Lessor receive seventy-five percent (75%) of any consideration or increase in rent received or to be --- over

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

E. ABOVE STANDARD TENANT IMPROVEMENTS. In addition to the construction of tenant improvements as set forth in Paragraph C above, Lessor and Lessee agree that Lessor shall also construct those certain above-standard tenant improvements set forth in the plans and specifications attached hereto as Exhibit "C". Lessor and Lessee have estimated to the best of their ability the total construction costs Lessor shall incur in the construction of such above-standard improvements and Lessee has approved such estimate as set forth in Exhibit "C". Provided however, Lessee understands and agrees that this is an estimate only, and that the total actual construction costs for such above-standard improvements may exceed the estimate. Nevertheless, Lessee agrees that the Base Rent payable pursuant to Paragraph 4 of the Lease shall be adjusted as more particularly set forth below, based on the total actual construction costs for such above-standard improvements and not the estimated costs. Lessor shall pay all costs incurred in connection with the construction of the above-standard improvements including but not limited to actual material costs, costs of installation, architectural and/or engineering fees, governmental fees (e.g. building permit fees), the cost of painting and other finish work, and delivery fees. Following completion of construction and when such costs are known to Lessor, Lessor shall provide Lessee with a breakdown of such costs, and a total for the actual costs of the above-standard improvements. The minimum monthly rent

payable by Lessee over the initial term of this Lease shall then be increased by the quotient derived by dividing the total actual cost of construction of the above standard improvements by the number of months in the initial Lease Term. Solely as an example, assume:

total cost of construction	=	\$50,000
months in the initial Lease Term	=	36
quotient	=	\$1,388.89 (\$50,000 DIVIDED BY 36)
original Base Rent	=	\$3,500.00
adjusted Base Rent	-	\$4,888.89 (\$3,500.00 + \$1,388.89).

Lessor shall notify Lessee promptly upon determination of the adjusted Base Rent. By its execution of this Addendum to Lease, Lessee acknowledges its liability for payment of such adjusted Base Rent notwithstanding the fact that such adjusted amount is not capable of determination as of the date of execution hereof. Lessee shall have the right to request change orders as set forth in Paragraph C above. Following completion of construction and installation of the above-standard improvements, Lessee shall also have the inspection rights set forth in Paragraph C above. Subject to Lessor's duty to correct defects arising out of improper installation of improvements, Lessee's sole and exclusive remedy for alleged product defects in such above-standard improvements shall be a right of action against the manufacturer guaranteeing the allegedly defective product. Lessor shall assign to Lessee all warranties and guaranties of the manufacturers of all above-standard improvements installed in the Premises. Notwithstanding the adjusted Base Rent as set forth herein, in the event that Lessee is in

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default of any of its obligations under this Lease, then in addition to any other rights or remedies which Lessor may require that Lessee pay the unpaid balance of the total actual costs of construction of the above standard improvements immediately upon written notice. Upon receipt by Lessor from Lessee of such unpaid balance, the Base Rent payable by Lessee shall be reduced by the quotient described above.

IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ Jeanne Wright-Bortolay, Agent Dated: 10/10/95

LESSEE:

q.a.d., Inc., a California Corporation

BY: _____ Dated: _____
Pam Lopker, President

BY: /s/ Douglas Marsh Dated: Sep 28, 1995

Karl Lopker, Vice President

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EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK

STANDARD INDUSTRIAL LEASE - MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, September 8, 1995, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phases I & II (46,198 s.f. + 14,000 s.f. = 60,198 s.f) and described as 6430 Via Real, Suite's 1 & 2 (Building C), Carpinteria, CA consisting of approximately 2,760 square feet (see Exhibit "A" attached hereto) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 9 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS - DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS - LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent, which

consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS - RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for Fifty (50) months commencing on November 1, 1995 ending on December 31, 1999 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$3,450.00. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay to Lessor upon execution hereof \$3,450.00 as Base Rent for November 1, 1995 thru November 30. Rent for any period during the term

hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 4.58 percent.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

Initials: /s/ DM

/s/ JWB

MULTI TENANT--MODIFIED NET

- -C- American Industrial Real Estate Association 1981

(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating

Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$3,450.00 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for purpose of manufacturing, developing and marketing computer software and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. See Addendum.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generally of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls,

ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations

in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass

insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other

property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said

twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or

total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any

subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible

therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in

the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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/s/ JWB

13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to N/A Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$ N/A, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interests in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the

terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgage, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of the Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right or option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor

is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

48. LESSOR OPTION TO RELOCATE LESSEE. At any time after Lessee's execution of this Lease, Lessor shall have the right, upon providing Lessee thirty (30) days notice in writing, to provide and furnish Lessee with space elsewhere in the building of approximately the same size as said Premises, and to move and place Lessee in such new space at Lessor's expense. In the event Lessor moves Lessee to such new space, then this Lease and each and all of the terms and covenants and conditions hereof shall thereupon remain in full force and effect and be deemed applicable to such new space except that a revised Exhibit "A" shall become a part of this Lease and shall reflect the location of the new space and Paragraphs 4.1, 4.2 and 5 shall be amended to show correct data. Should Lessee refuse to permit Lessor to move Lessee to such new space at the end of said thirty (30) day period, Lessor shall have the right to terminate this Lease by notice to such effect given to Lessee in writing within ten (10) days following the end of said thirty (30) day period, which termination shall be effective sixty (60) days after the date of the original relocation by Lessor.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE-LESSEE. Lessee shall, at Lessee's expense, obtain

and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park

q.a.d., Inc.
a California Corporation

By /s/ Jeanne Wright-Bortolay, Agent

By /s/ Pam Lopker

Pam Lopker, President

By

By /s/ KL Douglas Marsh

Karl Lopker, Vice President

Executed on 10/10/95

(Corporate Seal)

Executed on

(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street

Santa Barbara, California 93101

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ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes September 8, 1995, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for two (2) additional successive periods of two (2) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of November 1, 1996, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = \frac{A \times B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable lease Premises in the surrounding geographical area. Prevailing

market rate shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

C. CONSTRUCTION OF TENANT IMPROVEMENTS. Lessee understands and agrees that Lessor is currently in the process of constructing the improvements which shall comprise the Premises. In the course of such construction, Lessor hereby agrees to construct the tenant improvements set forth in the plans and specifications attached hereto as Exhibit "B". Such plans and specifications are hereby clarified as follows: SEE EXHIBIT. Lessee has reviewed and approved all such plans and specifications. Any changes or additions made by Lessee to such plans and specifications shall be at Lessee's sole cost and expense, including a ten percent (10%) administrative payment to Lessor. Such additional payments shall be paid by Lessee to Lessor as follows: (i) fifty percent (50%) upon approval of such change by Lessor; and (ii) fifty percent (50%) prior to occupancy of the Premises by Lessee. All tenant improvements shall be deemed substantially completed when the City of Carpinteria issues a Certificate of Occupancy for the Premises. Notwithstanding the issuance of such Certificate, Lessee shall be provided with a punch list of such tenant improvements prior to the commencement of the lease term, and shall inspect the Premises after their substantial completion. Lessee shall set forth any manner in which Lessee claims that the Premises do not conform to the plans and specifications attached hereto as Exhibit "B", as reasonably measured by the standards of finished, comparably priced industrial space in the Santa Barbara area (hereinafter the "discrepancy"). Lessor shall cure such discrepancies to the extent Lessor deems such discrepancies to be reasonably claimed, within thirty (30) days following commencement of the lease term. Provided however, if any such discrepancy is incapable of cure within such thirty (30)-day period, and Lessor has commenced the cure of such discrepancy within such thirty (30)-day period, this provision shall be satisfied.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessee shall not install on the Premises any specialized equipment requiring the use of a power source (including, but not limited to, computer hardware or software) without the prior written consent

of Lessor. Lessor shall give its consent to such installation provided the conditions contained herein are satisfied. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. Also, it is a requirement that Lessor receive seventy five percent (75%) of any consideration or increase in rent received or to be -- over

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

H. ABOVE-STANDARD TENANT IMPROVEMENTS. In addition to the construction of tenant improvements as set forth in Paragraph C above, Lessor and Lessee agree that Lessor shall also construct those certain above-standard tenant improvements set forth in the plans and specifications attached hereto as Exhibit "C". Lessor and Lessee have estimated to the best of their ability the total construction costs Lessor shall incur in the construction of such above-standard improvements and Lessee has approved such estimate as set forth in Exhibit "C". Provided however, Lessee understands and agrees that this is an estimate only, and that the total actual construction costs for such above-standard improvements may exceed the estimate. Nevertheless, Lessee agrees that the Base Rent payable pursuant to Paragraph 4 of the Lease shall be adjusted as more particularly set forth below, based on the total actual construction costs for such above-standard improvements and not the estimated costs. Lessor shall pay all costs incurred in connection with the construction of the above-standard improvements including but not limited to actual material costs, costs of installation, architectural and/or engineering fees, governmental fees (e.g. building permit fees), the cost of painting and other finish work, and delivery fees. Following completion of construction and when such costs are known to Lessor, Lessor shall provide Lessee with a breakdown of such costs, and a total for the actual costs of the above-standard improvements. The minimum monthly rent payable by Lessee over the initial term of this Lease shall then be increased by the quotient derived by dividing the total actual cost of construction of

the above-standard improvements by the number of months in the initial Lease Term. Solely as an example, assume:

total cost of construction	=	\$50,000
months in the initial Lease Term	=	36
quotient	=	\$1,388.89 (\$50,000 DIVIDED BY 36)
original Base Rent	=	\$3,500.00
adjusted Base Rent	=	\$4,888.89 (\$3,500.00 PLUS \$1,388.89).

Lessor shall notify Lessee promptly upon determination of the adjusted Base Rent. By its execution of this Addendum to Lease, Lessee acknowledges its liability for payment of such adjusted Base Rent notwithstanding the fact that such adjusted amount is not capable of determination as of the date of execution hereof. Lessee shall have the right to request change orders as set forth in Paragraph C above. Following completion of construction and installation of the above-standard improvements, Lessee shall also have the inspection rights set forth in Paragraph C above. Subject to Lessor's duty to correct defects arising out of improper installation of improvements, Lessee's sole and exclusive remedy for alleged product defects in such above-standard improvements shall be a right of action against the manufacturer guaranteeing the allegedly defective product. Lessor shall assign to Lessee all warranties and guaranties of the manufacturers of all above-standard improvements installed in the Premises. Notwithstanding the adjusted Base Rent as set forth herein, in the event that Lessee is in

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default of any of its obligations under this Lease, then in addition to any other rights or remedies which Lessor may require that Lessee pay the unpaid balance of the total actual costs of construction of the above standard improvements immediately upon written notice. Upon receipt by Lessor from Lessee of such unpaid balance, the Base Rent payable by Lessee shall be reduced by the quotient described above.

IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: /s/ Jeanne Wright-Bortolajo, Agent Dated: 10/10/95

LESSEE:

q.a.d., Inc., a California Corporation

BY: ----- Dated: -----
Pam Lopker, President

BY: /s/ Douglas Marsh Dated: Sep 28, 1995

Karl Lopker, Vice President

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S EXHIBIT "A"

[FLOOR PLAN]

[MAP]

SOUTH COAST BUSINESS PARK

6410-6460 Via Real, Carpinteria, California

STANDARD INDUSTRIAL LEASE -- MULTI-TENANT
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION
[LOGO]

1. PARTIES. This Lease, dated, for reference purposes only, January 27, 1997, is made by and between William D & Edna J. Wright dba South Coast Business Park (herein called "Lessor") and q.a.d., Inc., a California Corporation (herein called "Lessee").

2. PREMISES, PARKING AND COMMON AREAS.

2.1 PREMISES. Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of Santa Barbara, State of California commonly known as South Coast Business Park, Phases I & II (46,198 + 14,000 = 60,198 s.f) and described as 6430 Via Real, Suite 1, 2, 3, 4, 5, 6, 7 & 10 (Building B), Carpinteria, CA consisting of approximately 8,188 square feet (See Exhibit "A" attached) herein referred to as the "Premises", as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building, herein referred to as the "Building." The Premises, the Building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

2.2 VEHICLE PARKING. Lessee shall be entitled to 21 vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full size passenger automobiles or pick-up trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

2.2.1 Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

2.2.2 If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.3 COMMON AREAS -- DEFINITION. The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and of other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

2.4 COMMON AREAS -- LESSEE'S RIGHTS. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only

by the prior written consent of Lessor or Lessor's designated agent, which consent may be revoked at any time. In the event that any unauthorized storage shall occur then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

2.5 COMMON AREAS -- RULES AND REGULATIONS. Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the non-compliance with said rules and regulations by other lessees of the Industrial Center.

2.6 COMMON AREAS - CHANGES. Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways; (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas; (d) To add additional buildings and improvements to the Common Areas; (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof; (f) To do and perform such other acts and make such other changes in, to or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

2.6.1 Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

3. TERM.

3.1 TERM. The term of this Lease shall be for Thirty (30) months commencing on January 1, 1997 and ending on June 30, 1999 unless sooner terminated pursuant to any provision hereof. See Addendum.

3.2 DELAY IN POSSESSION. Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefor, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee.

3.3 EARLY POSSESSION. If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

4. RENT.

4.1 BASE RENT. Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the 1st day of each month of the term hereof, monthly payments in advance of \$10,396,61. See Addendum for cost of living adjustments to Base Rent, and determination of rent during Extension Periods.

Lessee shall pay to Lessor upon execution hereof \$10,396,61 as Base Rent for

1/1/97 thur 1/31/97. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

4.2 OPERATING EXPENSES. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as 13.60 percent.

(b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:

(i) The operation, repair and maintenance, in neat, clean, good order and condition, of the following:

(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates;

(bb) Trash disposal services;

(cc) Tenant directories;

(dd) Fire detection systems including sprinkler system maintenance and repair;

Initials:

MULTI TENANT--MODIFIED NET

- -C- American Industrial Real Estate Association 1981

(ee) Security services;

(ff) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense;"

(gg) Property management expenses;

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2;

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof;

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof;

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each twelve-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to

credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

5. SECURITY DEPOSIT. Lessee shall deposit with Lessor upon execution hereof \$10,396.61 as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

6. USE.

6.1 USE. The Premises shall be used and occupied only for the purpose of manufacturing, developing & marketing of computer software and for no other use without Lessor's prior written consent. See Addendum for additional terms.

6.2 COMPLIANCE WITH LAW.

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from that now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

6.3 CONDITION OF PREMISES.

(a) Lessor shall deliver the premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within thirty (30) days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises. See Addendum.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

7. MAINTENANCE, REPAIRS, ALTERATIONS AND COMMON AREA SERVICES.

7.1 LESSOR'S OBLIGATIONS. Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction) and except for damage caused by negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

7.2 LESSEE'S OBLIGATIONS.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the

Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air conditioning system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof. Lessee shall be responsible for clean-up of all hazardous waste occurring in or about the premises.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

7.3 ALTERATIONS AND ADDITIONS.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the

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exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations

in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

7.4 UTILITY ADDITIONS. Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

8. INSURANCE; INDEMNITY.

8.1 LIABILITY INSURANCE -- LESSEE.

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8.2 LIABILITY INSURANCE -- LESSOR. Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000 per occurrence.

8.3 PROPERTY INSURANCE. Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk", as such term is used in the insurance industry), plate glass

insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

8.4 PAYMENT OF PREMIUM INCREASE.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

8.5 INSURANCE POLICIES. Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancellable or subject to reduction of coverage or other modification except after thirty (30) days prior written notice to Lessor. Lessee shall, at least thirty (30) days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

8.6 WAIVER OF SUBROGATION. Lessee and Lessor each hereby release and relieve the other, and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

8.7 INDEMNITY. Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense. Lessee, as a material part of the consideration to Lessor, hereby assumes all risk of damage to property of Lessee or injury to persons, in, upon or about the Industrial Center arising from any cause and Lessee hereby waives all claims in respect thereof against Lessor. See Addendum.

8.8 EXEMPTION OF LESSOR FROM LIABILITY. Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise or other

property of Lessee, Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee, occupant or user of the Industrial Center, nor from the failure of Lessor to enforce the provisions of any other lease of the Industrial Center.

9. DAMAGE OR DESTRUCTION.

9.1 DEFINITIONS.

(a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.

(b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.

(c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.

(d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.

(e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.

(f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.

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(g) "Insured Loss" shall mean damage or destruction which was covered by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.

(h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

9.2 PREMISES PARTIAL DAMAGE; PREMISES BUILDING PARTIAL DAMAGE.

(a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.

(b) Uninsured Loss: Subject to the provisions of paragraph 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.3 PREMISES TOTAL DESTRUCTION; PREMISES BUILDING TOTAL DESTRUCTION; INDUSTRIAL CENTER BUILDINGS TOTAL DESTRUCTION.

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be cancelled and terminated as of the date of the occurrence of such damage.

9.4 DAMAGE NEAR END OF TERM.

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than twenty (20) days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said twenty (20) day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said twenty (20) day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said twenty (20) day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said

twenty (20) day period, notwithstanding any term or provision in the grant of option to the contrary.

9.5 ABATEMENT OF RENT; LESSEE'S REMEDIES.

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within ninety (90) days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of such notice.

9.6 TERMINATION -- ADVANCE PAYMENTS. Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

9.7 WAIVER. Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

10. REAL PROPERTY TAXES.

10.1 PAYMENT OF TAXES. Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2.

10.2 ADDITIONAL IMPROVEMENTS. Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

10.3 DEFINITION OF "REAL PROPERTY TAX." As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) which is imposed as a result of a transfer, either partial or total, of Lessor's interest in the Industrial Center or which is added to a tax or charge hereinbefore included within the definition of real property tax by

reason of such transfer, or (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

10.4 JOINT ASSESSMENT. If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

10.5 PERSONAL PROPERTY TAXES.

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. UTILITIES. Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share of a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

12. ASSIGNMENT AND SUBLETTING.

12.1 LESSOR'S CONSENT REQUIRED. Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1. See Addendum for additional terms.

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12.3 TERMS AND CONDITIONS OF ASSIGNMENT. Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof,

Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

12.4 TERMS AND CONDITIONS APPLICABLE TO SUBLETTING. Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessee shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease, and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

(i) No sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgement that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within ten (10) days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

12.5 ATTORNEY'S FEES. In the event Lessee shall assign or sublet the Premises or request the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

13. DEFAULT; REMEDIES.

13.1 DEFAULT. The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than thirty (30) days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such thirty (30) day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. Section 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession

of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false. See Addendum.

13.2 REMEDIES. In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installments of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law. Lessor's remedies shall include the relief set forth in Section 1951.2 of the California Civil Code.

13.3 DEFAULT BY LESSOR. Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than thirty (30) days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days are required for performance then Lessor shall not be in default if Lessor commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion.

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13.4 LATE CHARGES. Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to 6% of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

14. CONDEMNATION. If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than ten percent of the floor area of the Premises, or more than twenty-five percent of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any award for loss of or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

15. BROKER'S FEE.

(a) Upon execution of this Lease by both parties, Lessor shall pay to N/A Licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of \$ N/A, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an

ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interests in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

16. ESTOPPEL CERTIFICATE.

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrancer of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such time shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. LESSOR'S LIABILITY. The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

18. SEVERABILITY. The invalidity of any provision of this Lease as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. INTEREST ON PAST-DUE OBLIGATIONS. Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amounts upon which late charges are paid by Lessee.

20. TIME OF ESSENCE. Time is of the essence with respect to the obligations to be performed under this Lease.

21. ADDITIONAL RENT. All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

22. INCORPORATION OF PRIOR AGREEMENTS; AMENDMENTS. This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents of any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

23. NOTICES. Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

24. WAIVERS. No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to or approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

25. RECORDING. Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

26. HOLDING OVER. If Lessee, with Lessor's consent, remains in possession of the Premises or any part thereof after the expiration of the term hereof, such occupancy shall be a tenancy from month to month upon all the provisions of this Lease pertaining to the obligations of Lessee, but all Options, if any, granted under the terms of this Lease shall be deemed terminated and be of no further effect during said month to month tenancy.

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27. CUMULATIVE REMEDIES. No remedy or election hereunder shall be deemed exclusive but shall, wherever possible, be cumulative with all other remedies at law or in equity.

28. COVENANTS AND CONDITIONS. Each provision of this Lease performable by

Lessee shall be deemed both a covenant and a condition.

29. BINDING EFFECT; CHOICE OF LAW. Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

30. SUBORDINATION.

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof.

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

31. ATTORNEY'S FEES. If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

32. LESSOR'S ACCESS. Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

33. AUCTIONS. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. SIGNS. Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no

circumstances shall Lessee place a sign on any roof of the Industrial Center.

35. MERGER. The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of the Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

36. CONSENTS. Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

37. GUARANTOR. In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

38. QUIET POSSESSION. Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

39. OPTIONS.

39.1 DEFINITION. As used in this paragraph the word "Option" has the following meaning: (1) the right or option to extend the term of this Lease or to renew this Lease or to extend or renew any lease that Lessee has on other property of Lessor; (2) the option or right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other space within the Industrial Center or other property of Lessor or the right of first offer to lease other space within the Industrial Center or other property of Lessor; (3) the right or option to purchase the Premises or the Industrial Center, or the right of first refusal to purchase the Premises or the Industrial Center, or the right of first offer to purchase the Premises or the Industrial Center, or the right of first option to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor or the right of first offer to purchase other property of Lessor.

39.2 OPTIONS PERSONAL. Each Option granted to Lessee in this Lease is personal to the original Lessee and may be exercised only by the original Lessee while occupying the Premises who does so without the intent of thereafter assigning this Lease or subletting the Premises or any portion thereof, and may not be exercised or be assigned, voluntarily or involuntarily, by or to any person or entity other than Lessee, provided, however, that an Option may be exercised by or assigned to any Lessee Affiliate as defined in paragraph 12.2 of this Lease. The Options, if any, herein granted to Lessee are not assignable separate and apart from this Lease, nor may any Option be separated from this Lease in any manner, either by reservation or otherwise.

39.3 MULTIPLE OPTIONS. In the event that Lessee has any multiple options to extend or renew this Lease a later option cannot be exercised unless the prior option to extend or renew this Lease has been so exercised.

39.4 EFFECT OF DEFAULT ON OPTIONS.

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary, (i) during the time commencing from the date Lessor gives to Lessee a notice of default pursuant to paragraph 13.1(b) or 13.1(c) and continuing until the noncompliance alleged in said notice of default is cured, or (ii) during the period of time commencing on the date after a monetary obligation to Lessor is due from Lessee and unpaid (without any necessity for notice thereof to Lessee) and continuing until the obligation is paid, or (iii) at any time

after an event of default described in paragraphs 13.1(a), 13.1(d), or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), nor (iv) in the event that Lessor has given to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured, during the 12 month period of time immediately prior to the time that Lessee attempts to exercise the subject Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee's inability to exercise an Option because of the provisions of paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessee fails to commence to cure a default specified in paragraph 13.1(c) within thirty (30) days after the date that Lessor gives notice to Lessee of such default and/or Lessee fails thereafter to diligently prosecute said cure to completion, or (iii) Lessee commits a default described in paragraph 13.1(a), 13.1(d) or 13.1(e) (without any necessity of Lessor to give notice of such default to Lessee), or (iv) Lessor gives to Lessee three or more notices of default under paragraph 13.1(b), or paragraph 13.1(c), whether or not the defaults are cured.

40. SECURITY MEASURES. Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

41. EASEMENTS. Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

42. PERFORMANCE UNDER PROTEST. If at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment, and there shall survive the right on the part of said party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

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43. AUTHORITY. If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

44. CONFLICT. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions, if any, shall be controlled by the typewritten or handwritten provisions.

45. OFFER. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

46. ADDENDUM. Attached hereto is an addendum or addenda containing paragraphs A through H which constitute a part of this Lease.

47. MODIFICATION FOR LENDER. If in connection with obtaining financing for the building, the Lender shall request reasonable modifications in this Lease as a condition to such financing, Lessee will not unreasonably withhold, delay, or defer its consent thereto, provided that such modifications do not increase the obligations of Lessee hereunder or materially adverse affect the leasehold interest hereby created.

48. LESSOR OPTION TO RELOCATE LESSEE. At any time after Lessee's execution of this Lease, Lessor shall have the right, upon providing Lessee thirty (30) days notice in writing, to provide and furnish Lessee with space elsewhere in the building of approximately the same size as said Premises, and to move and place Lessee in such new space at Lessor's expense. In the event Lessor moves Lessee to such new space, then this Lease and each and all of the terms and covenants and conditions hereof shall thereupon remain in full force and effect and be deemed applicable to such new space except that a revised Exhibit "A" shall become a part of this Lease and shall reflect the location of the new space and Paragraphs 4.1, 4.2 and 5 shall be amended to show correct data. Should Lessee refuse to permit Lessor to move Lessee to such new space at the end of said thirty (30) day period, Lessor shall have the right to terminate this Lease by notice to such effect given to Lessee in writing within ten (10) days following the end of said thirty (30) day period, which termination shall be effective sixty (60) days after the date of the original relocation by Lessor.

49. MORTGAGE PROTECTION. Lessee agrees to give any mortgages and/or trust deed holders, as to all or a portion of the Premises, by registered mail, a copy of any notice of default served upon Lessor, provided that prior to such notice Lessee has been notified in writing (by way of notice or assignment of rents and leases, or otherwise) of the addresses of such mortgages and/or trust deed holders. Lessee agrees not to exercise any remedies available by virtue of a default unless Lessor shall have failed to cure such default within thirty (30) days after receipt of notice of default or such additional time as may be reasonably necessary to cure the default in the case of a default incapable of being cured within thirty (30) days. Lessee further agrees that the mortgages and/or trust deed holder shall have an additional thirty (30) days within which to cure such default, or if such default cannot be cured within that time, then such additional time as may be necessary if within such thirty (30) days any mortgagee and/or trust deed holder has commenced and is diligently pursuing the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings if necessary to effect such cure), in which event such right, if any, as Lessee might otherwise have to terminate the Lease shall not be exercised while such remedies are being so diligently pursued.

8.1 LIABILITY INSURANCE--LESSEE. Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Comprehensive General Liability insurance utilizing an Insurance Services Office standard

form with Broad Form General Liability Endorsement (GLO404), or equivalent, in an amount of not less than 1) \$1,000,000 per occurrence of Bodily Injury and Property Damage combined single limit with a \$1,000,000 excess liability policy, or 2) \$1,000,000 per occurrence of Bodily Injury and Property Damage with a \$2,000,000 General Aggregate Bodily Injury and Property Damage, and shall insure Lessee with Lessor as an additional insured against liability arising out of the use, occupancy or maintenance of the Premises. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN AND, BY EXECUTION OF THIS LEASE, SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

LESSOR

LESSEE

William D & Edna J. Wright dba
South Coast Business Park
- - - - -

q.a.d., Inc.
a California Corporation
- - - - -

By _____

By _____
Pam Lopker, its President

By _____

By _____
Karl Lopker, its Vice President

Executed on _____
(Corporate Seal)

Executed on _____
(Corporate Seal)

ADDRESS FOR NOTICES AND RENT

ADDRESS

130 Garden Street
- - - - -

- - - - -

Santa Barbara, California 93101
- - - - -

- - - - -

- - - - -

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ADDENDUM TO LEASE

This ADDENDUM is attached to and forms a part of that certain Standard Industrial Lease dated for reference purposes January 27, 1997, by and between William D & Edna J. Wright dba South Coast Business Park ("Lessor"), and q.a.d., Inc., a California Corporation ("Lessee"). The said Standard Industrial Lease is hereby modified/supplemented (and as modified/supplemented is hereinafter referred to as "this Lease") in the following particulars only:

A. OPTION TO EXTEND TERM OF LEASE. Lessee is hereby granted the option to extend the term of this Lease for two (2) additional successive periods of two (2) years each. The options shall be exercised by the delivery of written notice to Lessor no earlier than two hundred seventy (270) days and no later than one hundred eighty (180) days prior to the expiration of the lease term then in effect. Any extensions granted hereunder shall be on the same terms and conditions applicable to the initial term except as to rent, which shall be increased in accordance with Paragraph B(2) below. Lessee's right to exercise the options granted herein is subject to the terms and conditions set forth in Paragraph 39 of this Lease.

B. ADJUSTMENTS TO BASE RENT.

(1) COST OF LIVING ADJUSTMENTS TO BASE RENT. The Base Rent payable pursuant to Paragraph 4.1 shall be subject to further adjustment as of January 1, 1998, and as of the same date each year thereafter during the initial lease term and any extension period. Said date is hereinafter referred to as the "Adjustment Date." The adjustment shall be made as follows:

The Base Rent for the Premises shall be adjusted by the same percentage as the increase, if any, in the Consumer Price Index (All Items for All Urban Consumers 1982-84=100 Base), of the United States Department of Labor, Bureau of Labor Statistics for Los Angeles-Anaheim-Riverside, CA (the "Index"). The adjustment shall be calculated according to the following formula:

$$X = A \times \frac{B}{C}$$

X = Adjusted rent

A = Base Rent as of the first month of the term then in effect.

B = The monthly index for the third month immediately preceding the Adjustment Date.

C = The monthly index for the third month immediately preceding the first month of the term then in effect.

The monthly rent as so adjusted shall be payable for each month commencing with the Adjustment Date and continuing until the next Adjustment Date.

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If the Index is discontinued or revised during the term of this Lease, such other government Index or computation with which it is replaced shall be used in order to obtain substantially the same result as would be obtained if the Index had not been discontinued or revised.

(2) DETERMINATION OF BASE RENT DURING EXTENSION PERIODS. In the event Lessee exercises the option to extend granted in Paragraph (a) above, the Base Rent payable at the commencement of the applicable Extension Period shall be the then prevailing market rate for a triple net lease of comparable

lease Premises in the surrounding geographical area. Prevailing market rate shall be determined by mutual agreement of Lessor and Lessee on the basis of the value which will be obtained in an arms-length transaction between an informed and willing tenant (other than a tenant currently in possession of the demised Premises) and an informed and willing landlord (other than the then existing landlord of demised Premises) under no compulsion to lease. If Lessor and Lessee have not agreed upon the prevailing market rental rate by the date which is thirty (30) days prior to the expiration of the lease term then in effect, then the option to extend will automatically cease and be deemed extinguished. The base monthly rent as determined pursuant to this Paragraph B(2) shall thereafter be subject to further cost of living adjustments pursuant to the terms of Paragraph B(1) above.

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D. USE. Paragraph 6 of this Lease is hereby supplemented as follows:

(1) PROHIBITED USES. Lessee shall not do or permit anything to be done in or about the Premises nor bring or keep anything therein which will in any way increase the existing rate of or affect any fire or other insurance upon the Premises or any of its contents, or cause a cancellation of any insurance policy covering the Premises or any part thereof or any of its contents. Lessee shall not commit or suffer to be committed any nuisance or waste in or upon the Premises. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall not keep any animals or pets on the Premises. Lessee shall not use or store "hazardous materials or wastes" on the Premises, as such terms are defined by applicable federal and state law, without Lessor's prior written consent. If such consent is given, Lessee shall comply with governmental laws, rules and regulations pertaining to hazardous materials and wastes. Lessor shall have a right of re-entry upon the Premises on reasonable notice and at reasonable times for purposes of inspection, contamination testing and remediation.

(2) INSTALLATION OF SPECIALIZED EQUIPMENT AND USE OF LESSEE'S POSSESSIONS ON THE PREMISES. Lessee shall not install on the Premises any specialized equipment requiring the use of a power source (including, but not limited to, computer hardware or software) without the prior written consent of Lessor. Lessor shall give its consent to such installation provided the conditions contained herein are satisfied. Lessor shall not be liable to Lessee for damage to Lessee or Lessee's possessions, including but not limited to furniture, fixtures, equipment (specialized or otherwise), and inventory, from any cause. Lessee waives all claims against Lessor for damage to Lessee's possessions arising for any reason. Lessee shall comply with all laws, regulations and ordinances relating to the condition and use of any and all of Lessee's possessions on the Premises, including laws requiring the alteration, maintenance and restoration of the Premises as a result of Lessee's particular use. Provided, however, any required alterations to the Premises shall be conditioned upon Lessor's prior written consent. The Premises shall not be electrically overloaded. No equipment, machinery, apparatus or other appliance shall be used or operated on the Premises in such a manner that such equipment will in any way injure, vibrate or shake the Premises, or place an excessive burden on power sources installed on the Premises.

E. ASSIGNMENT AND SUBLETTING. Lessee hereby understands and agrees that Lessor may withhold its consent to any requested assignment or subletting, and such withholding of consent shall be deemed reasonable, in the event that the proposed assignee or sublessee intends to use or store hazardous wastes or materials on the Premises. Also, it is a requirement that Lessor receive seventy five percent (75%) of any consideration or increase in rent received or to be received by Lessee for such assignment or sublease. Please note that the term of the sublease may not exceed the term of the "master" lease.

F. INDEMNITY. The indemnification of Lessor by Lessee pursuant to

Paragraph 8.7 of this Lease shall also include and extend to any violation by Lessee of applicable state, federal and local laws pertaining to the use, storage and discharge of hazardous materials and wastes.

G. DEFAULT. Paragraph 13.1 of this Lease is supplemented to provide that the release or discharge by Lessee of any hazardous material or wastes in or about the Premises, or violation of any law or deviation from prescribed

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procedures in the use or storage of hazardous materials or wastes, shall constitute a material default of this Lease by Lessee. Wherever used in this Lease, the terms hazardous wastes and/or hazardous materials shall include all definitions of hazardous wastes and materials provided by both federal and California law.

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IN WITNESS WHEREOF, Lessor and Lessee have each caused this Addendum to be executed concurrently with the Lease of which this Addendum forms a part.

LESSOR:

WILLIAM D & EDNA J. WRIGHT dba
SOUTH COAST BUSINESS PARK

BY: _____

Dated: _____

LESSEE:

q.a.d., Inc., a California Corporation

BY: _____
Pam Lopker, its President

Dated: _____

BY: _____
Karl Lopker, its Vice President

Dated: _____

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EXHIBIT "A"

[FLOOR PLAN]

SOUTH COAST BUSINESS PARK

6410-6460 Via Real, Carpinteria, California

LANDLORD: LAUREL LARCHMONT OFFICE, INC.
TENANT: qad, inc.
PREMISES: 10000 MIDLANTIC DRIVE, SUITE
MOUNT LAUREL, NEW JERSEY

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MULTI-TENANT OFFICE LEASE

1. DATE OF LEASE:
2. LANDLORD: Laurel Larchmont Office, Inc.
Address of Landlord: c/o Midlantic National Bank
499 Thornall Street
P.O. Box 600
Edison, New Jersey 08818
3. TENANT: qad, inc.
Address of Tenant: 6450 Via Real
Carpinteria, California 93013
Tenant's SIC Number: 7757
4. NOTICES

Wherever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other party, such notice or demand shall be deemed to have been duly given or served if in writing and either personally served or forwarded by Registered or Certified Mail, Return Receipt Requested postage prepaid, and addressed as follows:

LANDLORD: Laurel Larchmont Office, Inc.
c/o Midlantic National Bank
499 Thornall Street
P.O. Box 600
Edison, New Jersey 08818

TENANT: qad, inc.
10000 Midlantic Drive
Suites 103 East, 105 East, 200 East and 200 West
Mount Laurel, New Jersey 08054

Each such mailed notice shall be deemed to have been given to or served upon the party to which addressed two (2) days after the date the same is deposited in the United States Registered or Certified Mail, postage prepaid, and

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properly addressed in the manner above provided. Either party hereto may change its address to which said notices shall be delivered or mailed by giving written notice of such change to the other party hereto as herein provided.

5. PREMISES

(Include street address, approximate square footage, suite number, and lot & block number)

10000 Midlantic Drive
Suites 105 East, 200 East and 200 West
Mount Laurel, New Jersey 08054

R.S.F. Suite 103 East	3,384 sf.
Suite 105 East	9,412 sf.
Suite 200 East	22,287 sf.
Suite 200 West	22,188 sf.

Total:	57,271 sf.

Block #513, Lot #3

As identified on Exhibit "A" ("Premises") in the building known as 10000 MIDLANTIC DRIVE ("Building").

Landlord, for and in consideration of the rent to be paid and the covenants and agreements to be performed by Tenant, as hereinafter set forth, does hereby lease, demise and let unto Tenant the Premises, together with the right to use in common with the other tenants in the Building, six (6) parking spaces per 1,000 square feet located adjacent to the Building and non-exclusive use of the walks, access roads and land surrounding the Building and the common areas in the Building.

6. USE OF PREMISES

The Tenant covenants and agrees to use the Premises as OFFICE AND RELATED PURPOSES. Tenant agrees not to use or permit the Premises to be used for any other purpose without

the prior written consent of the Landlord endorsed hereon. No machinery, equipment or other thing that could cause unusual vibration, noise, odor or fumes shall be installed or placed therein. Tenant shall not use or occupy the Premises for any other purpose or business without the prior written consent of Landlord which consent Landlord agrees shall not be unreasonably withheld. Tenant shall not subject any portion of the floor to greater loading than that portion of the Premises is designed to carry.

Tenant shall observe and comply with the rules and regulations attached hereto, as Exhibit "B", as well as applicable laws and governmental regulations as currently or hereinafter enacted and to all reasonable requirements of the insurer of the Premises or the Building which the Premises are a part. Tenant agrees to promptly furnish Landlord with a copy of any notice that it receives that it is in violation of any applicable law or governmental regulations.

7. TERM

The term of this Lease shall be SEVEN (7) YEARS, ZERO (0) MONTHS commencing on June 1, 1994 ("Commencement Date") and ending at 12:00 noon on May 31, 2001. In no event shall Landlord be liable to Tenant for any actual or consequential damages in the event that Landlord is unable to deliver possession on the date indicated due to the failure of any prior Tenant to vacate the Premises at the termination of its Lease or if any work necessary to make

the Premises ready for Lessee's occupancy is not accomplished due to shortages or unavailability of material, labor or other causes beyond Landlord's control. In the event that the Landlord is delayed in giving possession as provided herein, the termination date of the Lease shall be extended accordingly.

If the Lease term does not commence upon the date indicated above, Landlord and Tenant shall, by separate writing, set forth the date that the Lease term commenced and will terminate.

8. RENT

(a) Tenant shall pay to Landlord, without set off or deduction, at its offices, P.O. Box 600, Edison, New Jersey 08818 or such other place as Landlord directs, rental as set forth below:

TERM	PSF RATE	MONTHLY RENT	ANNUAL RENT
Year 1	\$12.00 (x 45,271sf)	\$45,271.00	\$543,252.00
Year 2	\$12.00	\$57,271.00	\$687,252.00
Years 3 thru 5	\$12.50	\$59,657.29	\$715,887.50
Years 6 and 7	\$13.00	\$62,043.58	\$744,523.00

Payable on the first business day of each month during the term of this Lease except that the first month's rent shall be payable upon the execution of this Lease.

(b) In addition to the minimum annual rental, Tenant shall pay to Landlord its proportionate share of all operating costs incurred during each calendar year (pro rated where appropriate) during the term of this Lease.

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This operating cost shall be estimated by Landlord at the commencement of the rental term and Tenant shall pay to Landlord in addition to the basic rent and on the same day provided in paragraph 8(a) 1/12 thereof. The estimated operating cost for the year in which this Lease commences is \$7.00 per R.S.F. As an inducement to Tenant, Landlord shall fix the operating expenses during the first twelve (12) months at a rate of \$6.27 per square foot or \$29,924.10 per month. The Tenant's proportionate share is 32.62 percent (57,271 sf divided by 175,573 sf = 32.62%). The operating expenses shall include all costs normally incurred in the maintenance and operation of an Office Building, less any charges invoiced directly to other tenants in the Building and shall include:

(i) Real estate taxes assessed on the Building, land underlying same, parking areas or other common elements including any assessments or municipal improvements;

(ii) All costs and expense directly related to the operation of the Building including preparing units for rental, lighting, cleaning, insuring, removing snow, ice and debris, policing and regulating traffic in the area immediately adjacent to the Building and depreciation of machinery and equipment used for such operation;

(iii) All costs and expense, other than those of a capital nature, of replacing paving, curbs, walkways, landscaping and replacing flowers and

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other planting), drainage and lighting facilities in the Building and areas immediately adjacent thereto;

(iv) Electricity and fuel used in lighting, heating, ventilating, and air conditioning of the Premises;

(v) Maintenance of mechanical and electrical equipment including heating, ventilating and air conditioning in the Premises;

(vi) Window cleaning and janitorial service, including janitorial equipment and supplies;

(vii) Maintenance of elevators, rest rooms, lobbies, hallways and other common areas of the Building;

(viii) Wages for personnel directly involved in the building management and operation, including all taxes payable by Landlord thereon and fringe benefits;

(ix) Water and sewer rents, charges and standby fees; and

(x) Accounting fees, management fees and legal fees which directly benefit the overall operation of the Building, it is expressly agreed that legal fees incurred in an action against an individual tenant shall not be deemed includable as an operating expense pursuant to this provision.

(xi) All costs associated with maintaining, operating and

monitoring any security system or sprinkler system.

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(xii) Any other expense or charge which would be considered an expense of maintaining, operating or repairing the Premises under sound accounting principles.

The operating expense increases shall not exceed five percent (5%) cumulatively per year except for the first year's fixed rate as it affects the second year's adjustment, not including those items outside of Landlord's direct control such as taxes and utilities, which shall not be capped.

Notwithstanding anything to the contrary contained herein, capital expenditures and the costs of preparing any other unit for rental shall not be included as operating costs. However, if Landlord incurs any capital expense for an improvement required by virtue of any governmental statute, ordinance or regulation then Landlord shall be permitted to recover on an amortized basis the portion of the capital costs applicable to the term of this Lease including any renewal or extension. Similarly, should Landlord make any capital improvement which reduces the operating costs payable hereunder then Landlord shall be permitted to recover the amortized costs as aforesaid but in no case shall the expense allocated to Tenant exceed the cost savings achieved by the capital improvement.

Within sixty (60) days after the expiration of each calendar year, Landlord shall furnish Tenant with an accounting of the actual operating expenses. If the actual operating expenses are less than the estimated expenses paid

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by the tenant the difference will be credited against all rental payments immediately due following the issuance of credit. In the event that the operating expenses exceed the estimates then Tenant shall pay to Landlord the difference within twenty (20) days of receipt of the accounting. The estimated payment for the current year shall then be adjusted to reflect the actual operating costs of the prior year.

(c) When used in this Lease pro rata shall be a percentage obtained by dividing the square footage of the Premises by the square footage of the Building in which the Premises are located. The percentage for the Premises is 32.62 percent.

(d) In determining Operating Expenses, if less than 95% of the rentable area of the Building have been occupied by tenants for more than thirty (30) days during such year, operating expenses shall be deemed for such year to be an amount equal to the like expenses which would normally be expected to be incurred had such occupancy of the Building been 95% throughout such year, as reasonably determined by Landlord.

9. LATE PAYMENT

Rent is due and payable on or before the first day of each month. Rent received after the tenth (10th) of the month is subject to a late charge of six percent (6%) of the monthly payment which charge must accompany rent. An

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additional charge will be made for checks returned for insufficient funds.

10. SECURITY DEPOSIT - DELETED

11. SIGNS

Landlord shall place a building standard sign upon the Tenant's door and a listing in the directory on the first floor. Tenant shall not post any sign or other listing in the windows or upon the exterior of the Building.

12. EXCESS USE OF ELECTRICITY

Landlord shall bill Tenant separately and Tenant shall pay to Landlord, at its then prevailing rate, an hourly fee for excess costs incurred for electricity, heating and air conditioning beyond the Building's normal operating hours. These hours are defined as follows:

Weekly business days: 8:00 AM to 7:00 PM
Customer Service Area: 8:00 AM to 9:00 PM

(All Areas) Saturday: 8:00 AM to 1:00 PM

Tenant shall have direct control of lighting at all hours.

13. CONDITION OF PREMISES

(a) Before the Commencement Date, Landlord will substantially complete the construction of the Building or any improvements to the Premises (if not substantially completed as of the date of this Lease) to the stage that the Building is operable for Tenant's purposes, which shall be defined as occurring when the public entrances of the Building, including ground floor lobbies and public hallways of the floor containing the Premises (or portions of said lobbies and hallways necessary to provide reasonable and

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safe access to the Premises) are substantially completed and elevators necessary to provide services to the Premises, the heating and air conditioning system (as required for the season and then prevailing climate) and all other mechanical systems required for service to the Premises are in regular operation.

(b) The Premises shall be deemed to be substantially completed when all work specified to be done in Exhibit "C" ("Tenant Finish") have been substantially completed, except for: (i) minor items of finishing and construction of a nature which are not necessary to make the Premises reasonably tenantable for the permitted use, and; (ii) items not then completed because of delay by Tenant in furnishing any drawings, plans or approvals (collectively, "Plans") required by Exhibit "C" or because of approved requests made by Tenant subsequent to delivery of Plans, or changes or additions therein.

(c) If Tenant fails to furnish or approve space plans by January 31, 1994, or makes any changes in such plans after said date, Tenant shall bear any additional construction or other expense to Landlord caused directly by any delay in furnishing the Plans or by any such changes and shall pay Landlord as a portion of rent, at the Commencement Date, an amount equal to the aggregate number of days lapsed between the delivery date set forth in Exhibit "C" and the actual delivery dates, multiplied by 1/365th of the annual base rent, plus an amount of additional rent attributed to such

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period as reasonably estimated by Landlord. Landlord and Tenant, understanding the difficulty in determining or estimating the actual damages that will result from Tenant's lateness in delivering Plans, have agreed upon the foregoing as an appropriate method of liquidating such damages.

(d) Landlord shall have the Premises substantially completed by the Commencement Date, except for delays due to Force Majeure or Tenant's failure to timely furnish or approve the Plans, any of which shall extend the Commencement Date for a period equal to a total of the duration of each such delay. If the Premises is not substantially completed within one (1) month of the Commencement Date, Landlord shall credit Tenant one (1) day of "free" rent for each late day as penalty, or if not completed within THREE (3) months following the Commencement Date, as the same may be extended in accordance herewith, Tenant, as Tenant's sole right thereby arising, may terminate this Lease by notice to Landlord given thereafter, provided that the terms shall not have commenced within thirty (30) days after the giving of such notice by Tenant. This Lease shall terminate in such case upon expiration of thirty (30) days after Landlord's receipt of such notice without substantial completion having occurred, whereupon Landlord shall return all rent and the security deposit paid by Tenant to Landlord in advance, and all further obligations of the parties hereunder shall end. It is understood that in the event of such termination by Tenant,

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Landlord shall have no responsibility to reimburse Tenant for any cost or expense which Tenant may have directly or indirectly incurred with respect to this Lease or the projected occupancy of the Premises, whether arranging for or terminating of arrangements for other space, or any alterations to the Premises of otherwise except for reasonable legal fees.

(e) The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in satisfactory condition, order and repair, subject only to a punch list which will be prepared prior to the time the Tenant takes possession.

(f) The Tenant shall quit and surrender the Premises at the end of the term in as good condition as received except for reasonable wear and tear.

14. REPAIRS AND MAINTENANCE

(a) Except as specifically otherwise provided in paragraph (b) and (c) of this paragraph, Tenant, at its sole cost and expense and throughout the term of this Lease, shall keep and maintain the Premises including carpeting in good order and condition, free of accumulation of dirt and rubbish, and shall promptly make all repairs necessary to keep and maintain such good order and condition reasonable wear and tear excepted, whether such repairs are interior or exterior, ordinary or extraordinary, foreseen or unforeseen. When used in this Article 14, the term "repairs" shall include replacements and renewals when necessary. All

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repairs made by Tenant shall utilize materials and equipment which are at least equal to quality and usefulness to those originally used in constructing the Building and the Premises.

(b) Landlord, throughout the term of this Lease and at Landlord's sole cost and expense, shall make all necessary repairs to the footings and foundations and the structural steel columns and girders forming a part of the Premises, providing however, that Landlord shall have no responsibility to make any repair unless and until Landlord receives written notice of the need for such repair. Tenant shall pay the cost of any repairs made pursuant to this paragraph if same are occasioned by the act, omission or negligence

of Tenant, its employees or invitees.

(c) Landlord shall make all necessary repairs to the roof, walls, exterior portions of the Premises and the Building, utility lines, equipment and other utility facilities in the Building, which serve more than one tenant of the Building, and to any driveways, sidewalks, curbs, loading, parking and landscaped areas, and other exterior improvements on the property; provided, however, that Landlord shall have no responsibility to make any repairs unless and until Landlord received written notice of the need for such repair. Tenant shall pay its proportionate share of the cost of all repairs to be performed by Landlord pursuant to this subparagraph (c) as additional rent promptly upon being billed therefore.

(d) Landlord shall not be liable by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations, additions or improvements in or to the Premises or the Building or to any appurtenances or equipment therein. There shall be no abatement of rent because of such repairs, alterations, additions or improvements, except as set forth in the "Fire or Other Casualty" Section 24 hereof.

15. ALTERATIONS AND TRADE FIXTURES

Tenant shall have the right to make any reasonable alterations, additions, or improvements with Landlord's prior written consent and all alterations, additions or improvements made by either of the parties hereto upon the Premises, except moveable and detached or detachable office furniture, and moveable partitions, and moveable machinery and equipment put in at Tenant's expense, shall be the property of Landlord, and shall remain upon and be surrendered with the Premises, as part thereof at the termination of this Lease.

Any property or fixtures which remain upon the Premises after the expiration of the Lease shall be deemed abandoned by Tenant and Landlord may take possession of same and dispose of in any reasonable manner without any further liability of Landlord to Tenant. Any costs associated with the removal of such property shall be payable by Tenant.

All labor and materials furnished by or on behalf of Tenant under or pursuant to this Lease shall be first class,

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no less than the caliber and quality which exists in the Premises and by contractors approved in writing by Landlord and shall be accomplished at times so as not to disturb the activities of other tenants. Tenant shall not install any alterations, additions or improvements in such a manner as to compromise the structural integrity of the Premises or any part thereof. The labor and materials shall be installed in complete conformity to all applicable statutes, codes, ordinances and regulations.

Landlord agrees that it will not unreasonably withhold or delay its consent to any proposed addition, alteration or improvement. Tenant agrees that it will submit to Landlord sealed plans and specifications along with the name and address of the proposed contractor and all subcontractors as part of any request made hereunder. Prior to commencing the work, Tenant will furnish Landlord with copies of all governmental permits and certificates establishing that its contractor and subcontractors have adequate insurance coverages. Upon completion of the work, Tenant will submit to Landlord as-built drawings and certificates of inspection certifying the satisfactory completion of the alteration, addition or improvement.

Landlord either has or is in the process of installing a master key system. Tenant therefore agrees that under no circumstances will it change

any of the exterior locks thereby making it impossible for the Landlord to gain access with its master key.

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16. ACCESS TO PREMISES

Landlord, its employees and agents shall have the right to enter the Premises at all reasonable times upon twenty-four (24) hour notice except in the case of emergency, for the purpose of examining or inspecting the same, showing the same to prospective purchasers, mortgagees or tenants of the Building, and making such alterations, repairs, improvements or additions to the Premises or to the Building as may be necessary. If representatives of Tenant shall not be present to open and permit entry into the Premises at any time when such entry by Landlord is necessary or permitted hereunder, Landlord may enter by means of a master key (or forcibly in the event of an emergency) without liability to Tenant and without such entry constituting an eviction of Tenant or termination of this Lease. Tenant shall not change any lock leading into the Premises whereby Landlord would not be able to enter with a master key.

17. ECRA COMPLIANCE

Tenant shall, at Tenant's own expense, comply with the Environmental Cleanup Responsibility Act, N.J.S.A. 13:1K-6 et seq. and the regulations promulgated thereunder ("ECRA"). Tenant shall, at Tenant's own expense, make all submission to, provide all information to, and comply with all requirements of, the Bureau of Industrial Site Evaluation ("the Bureau") of the New Jersey Department of Environmental Protection ("NJDEPE"). Should the Bureau or any other division of NJDEPE determine that a cleanup plan be prepared

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and that a cleanup be undertaken because of any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease, then Tenant shall, at Tenant's own expense, prepare and submit the required plans and financial assurances, and carry out the approved plans. Tenant's obligations under this paragraph shall arise if there is any closing, terminating or transferring of operations of an industrial establishment at the Premises pursuant to ECRA. At no expense to Landlord, Tenant shall promptly provide all information requested by Landlord for preparation of non-applicability affidavits and shall promptly sign such affidavits when requested by Landlord. Tenant shall be required to pay for only one (1) such affidavit during the term of this lease. Tenant shall indemnify, defend and save harmless Landlord from all fines, suits, procedures, claims and actions of any kind arising out of or in any way connected with any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease; and from all fines, suites, procedures, claims and actions of any kind arising out of Tenant's failure to provide all information, make all submissions and take all actions required by ECRA Bureau or any other division of NJDEPE. Tenant's obligations and liabilities under this paragraph shall continue so long as Landlord remains responsible for any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease. Tenant's failure to abide by

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the terms of this paragraph shall be restrainable by injunction.

Nothing herein is intended nor shall be it construed as imposing any

environmental liability upon the Tenant for any spill or discharge occurring prior to the date that the Tenant takes possession nor shall the Tenant be required to comply with the NJDEPE closure requirements in the event that the Landlord determines to sell the Building or otherwise engages in a reorganization of some other act which triggers the NJDEPE closure requirements.

Landlord warrants to the best of it's knowledge that there exists no discharges of hazardous substances or waste, or the existence of PCB's and Asbestos on the Premises and further indemnifies Tenant from such condition if in existence before Tenant's lease commencement.

18. BUILDING SERVICES

(a) Landlord shall provide within the following standards consistent with the operation of a first class office building in the Philadelphia metropolitan area:

(1) Air conditioning, ventilating and heating, at comfortable levels through the system of the Building, Monday to Friday, from 8:00AM to 7:00PM except as modified in Paragraph 12 and on Saturdays from 8:00AM to 1:00PM, excluding holidays so as to heat the Tenant's Premises to a minimum of 68 degrees F. between October 1 and May 1 and cooled to a maximum of 74 degrees F. between May 1 and October 1, subject to revision due to mandatory or voluntary

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compliance with Federal, State or Municipal laws, orders, rulings, statutes or guidelines from time to time in effect during the term of this Lease, and any renewals thereof.

(2) Electric current controllable by Tenant at all hours in such reasonable quantity as may be required by Tenant for the operation of the lighting fixtures and electrical outlets existing upon the Premises as of the date of the commencement of the Lease. If Tenant's use of electricity, in Landlord's judgement reasonably exercised, exceeds normal office use levels, Landlord may, at Tenant's expense install a submeter in the leased space to measure the electricity consumed and bill Tenant the cost thereof. In the event a meter cannot be used, a mutually agreed upon load count may be used to determine the amount of electricity used which exceeds normal levels.

(3) Landlord, at the inception of this Lease, will furnish light bulbs or fluorescent tubes for each lighting fixture then installed on the Premises at Landlord's expense and during the term of this Lease or any renewals or extensions thereof, replace the same from time to time as needed, the labor and material of which replacements shall be billed to Tenant if overused or abused, otherwise the cost shall be included in the normal operating expense budget.

(4) Maintenance of service of the public toilet rooms in the Building.

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(5) Cleaning of outside and inside of exterior window panes.

(6) Cleaning and maintenance of common areas in the Building.

(7) Elevator service during the normal business hours set forth in subparagraph 1 above, except that a minimum of one (1) elevator shall be operational at all times;

(8) Janitor service - Exhibit "D".

Tenant shall have the right but not the obligation to contract directly for janitorial service and the cost normally included in the operating expenses shall be adjusted accordingly to reflect only the Tenant's pro rata share of building common areas. Landlord shall charge only for services customarily provided in similar buildings at rates reasonably acceptable to the industry.

Landlord does not warrant that these services shall be free from any slowdown, interruption or stoppage pursuant to voluntary agreement by and between Landlord and governmental bodies and regulatory agencies or caused by the maintenance, repair, substitution, renewal, replacement or improvement of any of the equipment involved in the furnishing of any such services, or caused by changes of services, alterations, strikes, lockouts, labor controversies, fuel shortages, accidents, acts of God or the elements or any other cause beyond the reasonable control of Landlord; and specifically no such slowdown, interruption or stoppage of any such

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services shall ever be construed as an eviction, actual or constructive, of Tenant nor shall same cause any abatement of annual basic rent or additional rent payable hereunder.

19. ASSIGNMENT AND SUBLETTING

(a) Tenant shall have no right to sublet all or any part of the Premises without the prior written approval of Landlord, except to an affiliate or subsidiary which shall not require Landlord's approval. Approval by Landlord will not be unreasonably withheld. On any approved subletting of all or any part of the Premises, (a) Landlord shall receive from Tenant fifty percent (50%) of all profit direct or indirect derived by Tenant from the subletting* and (b) Tenant shall remain liable under all terms and conditions of this Lease. In the event of default by Tenant under the terms and conditions of this Lease at such time that all or part of the Premises are then sublet, Landlord may collect directly from the subtenant(s) all rents becoming due to Tenant under the Sublease(s) and apply such rents against any sums due to Landlord by Tenant under this Lease, and Tenant hereby authorizes and directs such Subtenant(s) to make such payment of rent to Landlord upon receipt of notice from Landlord. Such collection of rent by Landlord shall not constitute a novation or a release of Tenant from its liability under the terms and conditions of this Lease.

(b) Tenant shall have no right to make an assignment of this Lease without the prior written approval of Landlord. Approval by Landlord will not be unreasonably

* excluding the sale of furniture, fixtures and equipment in the premises

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withheld. On any approved assignment of this Lease, (a) Landlord shall have the right to approve the assignee and the assignment documents (the assignee must agree therein to assume all terms, conditions, and obligations of the Lease), (b) Landlord shall receive from Tenant all profit derived by Tenant from the assignment, and (c) Tenant shall be relieved of all subsequent liability under the terms and conditions of this Lease upon the approval and completion of the assignment.

(c) The written approval of Landlord to one or more sublettings or assignments shall not operate as a waiver of Landlord's right to approve any further sublettings and assignments.

(d) Tenant shall not (a) mortgage, pledge or otherwise encumber its interest in this Lease or (b) grant any license, concession or other right of occupancy of any portion of the Premises, without the prior written consent of Landlord.

(e) As a condition precedent to Tenant's right to sublease the Premises or to assign this Lease, Tenant shall, at Tenant's own expense, comply with ECRA.

(f) Tenant shall promptly furnish to Landlord true and complete copies of all documents, submissions and correspondence provided by Tenant to the Bureau and all documents, reports, directives and correspondence provided by the Bureau to Tenant. Tenant shall also promptly furnish to Landlord true and complete copies of all sampling and

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test results obtained from samples and tests taken at and around the Premises.

(g) As a condition precedent to Tenant's right to sublease the Premises or to assign the Lease, Tenant shall have received from the Bureau either (i) a non-qualified approval of Tenant's negative declaration or (ii) a non-applicability letter, for which Tenant shall promptly apply pursuant to ECRA. If this condition shall not be satisfied, then Landlord shall have the right to withhold consent to sublease or assignment.

(h) Nothing herein to the contrary withstanding, Landlord's written consent shall not be required for any sublease or assignment of this Lease to any other entity which controls or is controlled by Tenant provided that Tenant shall continue to remain liable in such instance. Tenant shall be required to give Landlord thirty (30) days written notice in advance of any such subleasing or assignment.

(i) Tenant agrees that any subleasing or assignment to any person, firm, partnership or corporation which is not an actual user of the Premises is absolutely prohibited and nothing herein shall require Landlord to consent to any such subleasing or assignment.

20. MECHANICS' LIENS

If any mechanics' or other lien shall be filed against the Premises or the Building for labor or material furnished or to be furnished at the request of the Tenant, then Tenant

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shall at its expense cause such lien to be discharged of record by payment, bond or otherwise, within thirty (30) days after Tenant receives written notice. If Tenant shall fail to cause such lien to be discharged of record within such thirty (30) day period, Landlord may cause such lien to be discharged by payment, bond or otherwise, without investigation as to the validity thereof or as to any offsets or defenses thereto. The cost to Landlord for removal of such lien will be charged to Tenant as additional rent and payable on the first day of the month next following the payment by Landlord. Tenant shall indemnify and hold Landlord harmless against any and all claims, costs, damages, liabilities and expenses (including reasonable attorney fees) which may be brought or imposed against or incurred by Landlord by reason of any such lien or its discharge.

21. INDEMNIFICATION AND LIABILITY INSURANCE

(a) Tenant shall indemnify hold Landlord harmless against and from liability and claims of any kind for liabilities, losses, damages, suits, actions, fines, penalties, claims or demands of any kind and asserted by or on behalf of any person, entity, independent contractor or governmental authority, arising out of or in any way connected with, (i) Tenant's use and occupancy of the Premises or any work, activity or other things allowed or suffered by Tenant to be done in, on or about the Premises; (ii) any breach or default by Tenant of any of Tenant's

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obligations under this Lease; (iii) any negligent or otherwise tortious act or omission of Tenant, its agents, employees, invitees or contractors; or (iv) any failure by Tenant to comply with any statutes, ordinances, regulations, guidelines, or orders of any governmental authority. Tenant shall, at Tenant's expense, defend Landlord in any action or proceeding arising from any such claim and shall indemnify Landlord against all costs, attorney fees,

(b) During the term of this Lease or any renewal thereof, Tenant shall obtain and maintain and promptly pay all premiums for comprehensive general liability insurance with respect to the demised Premises, the Buildings and land on which it is situated, covering at least the hazards of "premises operations" and "independent contractors" in the amount of not less than \$1,000,000.00 with respect to injuries to or death of any one person and in the amount of not less than \$1,000,000.00 with respect to injuries to or death of more than one person in any one occurrence and in the amount of not less than \$100,000.00 per occurrence with respect to damaged property, such coverage to also include a contractual liability endorsement with such insurance company or companies as shall be satisfactory to Landlord from time to time, and all such policies and renewals thereof shall name the Landlord as an additional insured. On or before the commencement date of the term of this Lease, and thereafter not less than fifteen (15) days prior to the expiration dates of said policy or policies, Tenant

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shall provide copies of policies or certificates of insurance evidencing coverage required by this Lease.

(c) All Tenant's policies of insurance shall provide (i) that no material change or cancellation of said policies shall be made without thirty (30) days prior written notice to Landlord and (ii),

(iii) that the insurance company issuing the same shall have no right of subrogation against the Landlord, and (iv) that as to the interest of Landlord, the insurance afforded by the policy shall not be invalidated by any breach or violation by Tenant of any of the warranties, declarations or conditions in the policy.

(d) Landlord shall insure the Building of which the demised Premises are a part and Tenant shall insure the fixtures, equipment, machinery, tenant improvement and betterments and contents against loss or damage by fire and such other risks as may be included in the broadest form of extended coverage insurance including sprinkler leakage and rent insurance where applicable from time to time available. Tenant shall not engage in any activity or store any product or material in the demised Premises which will either cause an increase in the insurance on the entire Building or which will make the Building uninsurable.

22. WAIVER OF SUBROGATION

Tenant and Landlord, respectively, hereby release each other from any and all liability or responsibility to the other for anyone claiming by, through or under it or them by way of subrogation or otherwise for any loss or damage to property covered by any insurance then in force, even if such loss or damage shall have been caused by the fault or negligence of the other party or anyone for whom such party may be responsible; provided, however, that this release shall be applicable and in force and effect only with respect to any loss or damage occurring during such time as the policy or policies of insurance covering said loss shall contain a clause or endorsement to the effect that this release shall not adversely affect or impair such insurance or prejudice the right of the insured to recover thereunder.

23. WAIVER OF CLAIMS

Except as otherwise in this Lease provided, Landlord and Landlord's agents, servants and employees shall not be liable for, and Tenant hereby releases and relieves Landlord, its agents, servants, employees from, all liability in connection with any and all loss of life, personal injury, damage to or loss of property, or loss or interruption of business occurring to Tenant, its agents, servants, employees, invitees, licensees, visitors, or any other person, firm, corporation or entity, in or about or arising out of the Premises, from, without limitation, (a) any fire, other casualty, accident, occurrence or condition

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in or upon the Premises or the Building; (b) any defect in or failure of (i) plumbing, sprinkling, electrical, heating or air conditioning systems or equipment, telecommunication conduit, lines and equipment or any other systems and equipment of the Premises and the Building, and (ii) the elevators, stairways, railings or walkways of the Building; (c) any steam, gas, oil, water, rain or snow that may leak into, issue or flow from any part of the Premises or the Building from the drains, pipes, roof, or plumbing, sewer or other installation of same, or from any other place or quarter; (d) the breaking or disrepair of any installations and equipment; (e) the falling of any fixture or any wall or ceiling material; (f) damaged or broken interior or exterior glass; (g) latent or patent defects; (h) the exercise of any rights by Landlord under the terms and conditions of this Lease; (i) any acts or omissions of the other tenants or occupants of the Building or of nearby buildings; (j) any acts or omissions of other persons; (k) any acts or omissions of Landlord, its agents, servants and employees, except those involving gross negligence; and (l) theft, acts of God, public enemy, injunction, riot, strike, insurrection, war, court order or any order of any governmental authorities having jurisdiction over the Premises.

24. FIRE OR OTHER CASUALTY

(a) If the Premises are damaged by fire or other casualty, the damages shall be repaired by and at the

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expense of Landlord and the rent until such repairs shall be made shall be apportioned from the date of such fire or other casualty according to the part of the Premises which is usable by Tenant. Landlord agrees to repair such damage within a reasonable period of time after receipt from Tenant of

written notice of such damage, except that Tenant may agree to repair and replace its own furniture, furnishings, equipment and any alteration or improvement installed by Tenant. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting from such damage or the repair thereof.

(b) If the Premises, in the opinion of Landlord's licensed architect or engineer, are (i) rendered substantially untenable by reason of such fire or other casualty, or (ii) twenty percent (20%) or more of the Premises is damaged by said fire or other casualty and less than six (6) months would remain on the Lease term or any renewal thereof upon completion of the repairs or reconstruction, or (iii) fifty percent (50%) or more of the Premises is damaged by said fire or other casualty, then Landlord shall have the right to be exercised by notice in writing delivered to the Tenant within thirty (30) days from and after said occurrence, to elect to terminate this Lease, and, in such event, this Lease and the tenancy hereby created shall cease as of the date of said occurrence, the rent to be adjusted as of said date.

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(c) If the Building, in the sole opinion of Landlord, shall be substantially damaged by fire or other casualty, regardless of whether or not the Premises were damaged by such occurrence, Landlord shall have the right, to be exercised by notice in writing delivered to the Tenant within thirty (30) days from and after said occurrence, to terminate this Lease; and in such event, this Lease and the tenancy hereby created shall cease as of the date of said termination unless terminated as of the date of said occurrence in accordance with Paragraph 24(b) hereof, the rent to be adjusted as of the date of such termination.

25. SUBORDINATION AND NON-DISTURBANCE

This Lease is subject and subordinate to any mortgage now or hereafter affecting or covering the Premises. Notwithstanding the aforesaid subordination, in the event of the foreclosure of any such mortgage, (a) this Lease shall not terminate, and (b) the peaceful possession of Tenant shall not be disturbed, provided that Tenant is not in default under any of the terms and conditions of this Lease. Tenant agrees to attorn to and to recognize the mortgagee or the purchaser at foreclosure sale as Tenant's landlord for the balance of the term of this Lease. Tenant hereby agrees, however, that such mortgage or the purchaser at foreclosure sale shall not be (i) liable for any act or omission of Landlord and (ii) subject to any offsets or defenses which Tenant might have against Landlord; (iii) bound by any amendment or modification of this Lease made

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without its consent. The aforesaid subordination, non-disturbance and attornment provisions shall be self-operative; however, Tenant agrees to promptly execute any other agreement submitted by Landlord in confirmation or acknowledgement of same. Tenant hereby authorizes and empowers Landlord as its attorney-in-fact to execute an instrument in confirmation or acknowledgement of the provisions of this paragraph in the event that Tenant fails to execute any document within ten (10) days of its presentation.

26. CONDEMNATION

(a) If the whole of the Premises shall be condemned or taken either permanently or temporarily for any public or quasi-public use of purpose, under any statute or by right of eminent domain, or by private purchase in lieu thereof, then in that event the term of this Lease shall cease and terminate from the date when possession is taken thereunder pursuant to such proceeding or purchase. The rent shall be adjusted as of the time of such

termination and any rent paid for a period thereafter shall be refunded. In the event more than fifteen percent (15%) of the Building containing same shall be so taken (or if more than fifty percent (50%) of the parking areas are taken and not promptly replaced with contiguous parking areas) then Landlord may elect to terminate this Lease from the date when possession is taken thereunder pursuant to such proceeding or purchase or, upon mutual agreement of the

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parties, Landlord shall repair and restore, at its own expense, the portion not taken and thereafter the rent shall be reduced proportionately to the portion of the Premises taken.

(b) In the event of any total or partial taking of the Premises or the Building, Landlord shall be entitled to receive the entire award in such proceeding of the Building and land and Tenant shall make a separate application for Tenant's fixtures, equipment and moving expenses under the then applicable New Jersey eminent domain code.

(c) If the Premises or the Building are declared unsafe by any duly constituted authority having the power to make such determination, or are the subject of a violation notice or notice requiring repair or reconstruction which cannot be repaired by Landlord at its sole cost and expense within thirty (30) days, then Landlord at its option, may terminate this Lease, unless Tenant chooses to make such repair at its own cost, and in such event, Tenant shall immediately surrender said Premises to Landlord and thereupon this Lease shall terminate and the rent shall be apportioned as of the date of such termination.

27. ESTOPPEL CERTIFICATE

Tenant shall, at any time and from time to time, within ten (10) days after written request by Landlord, execute, acknowledge and deliver to Landlord, or its mortgagee or trustee, a statement in writing duly executed by Tenant (i) certifying that this Lease is in full force and effect (if

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that be the case) without modification or amendment (or, if there have been any modifications or amendments, that this Lease is in full force and effect as modified and amended and setting forth the modifications or amendments), (ii) certifying the dates to which annual basic rental and Additional Rent have been paid, and (iii) either certifying that to the knowledge of the Tenant no default exists under this Lease or specifying each such default; it being the intention and agreement of Landlord and Tenant that any such statement by Tenant may be relied upon by a prospective purchaser or a prospective or current mortgagee of the Building, or by others, in any matter affecting the Premises.

28. DEFAULT

The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) Failure of Tenant to accept possession of the Premises within thirty (30) days after the date of issuance of a certificate of occupancy;

(b) The vacation or abandonment of the Premises by Tenant, which shall be defined as Tenant's non-use of the premises for a contiguous period of greater than fourteen (14) calendar days;

(c) A failure by Tenant to pay, when due or no later than the tenth (10th) day of the month, any installment of rent hereunder or any Additional Rent or any such other sum herein required to be paid by

continues for thirty (30) days after written notice thereof from Landlord to Tenant. No default shall exist until ten (10) days after Landlord has sent to Tenant a written notice that the rent has not been received except that Landlord shall not be required to send Tenant notice of nonreceipt of rental more than three (3) times during any twelve (12) consecutive months;

(d) A failure by Tenant to observe and perform any other provisions or covenants of this Lease to be observed or performed by Tenant, where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant provided, however, that if the nature of the default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion;

(e) The filing of a petition by or against Tenant for adjudication as a bankrupt or insolvent or for its reorganization or for the appointment pursuant to any local, state or federal bankruptcy or insolvency laws of a receiver or trustee of Tenant's property; or an assignment by Tenant for the benefit of creditors; or the taking of possession of the property of Tenant by any local, state or federal governmental officer or agency or court appointed official for the dissolution or liquidation of Tenant or for the operating, either temporary or permanent, of Tenant's

business; provided, however, that if any such action is commenced against Tenant the same shall not constitute a default if Tenant causes the same to be dismissed within sixty (60) days after the filing of same.

29. REMEDIES

Upon the occurrence of any such default set forth above:

(a) Landlord may (but shall not be required to) perform for the account of Tenant any such default of Tenant and immediately recover as Additional Rent any expenditure made and the amount of any obligations incurred in connection therewith, plus interest at the rate of two percent (2%) per annum over the Midlantic National Bank prime rate from the date of such expenditure;

(b) Landlord may accelerate all rent and additional rent due for the balance of the term of this Lease and declare the same to be immediately due and payable; in the case of bankruptcy, insolvent by law or reorganization, Tenant agrees to vacate premises and accelerate rent for a period of two (2) months. This Lease and the unexpired term hereof shall cease and expire.

(c) In determining the amount of any future payments due Landlord due to increase as an operating cost and/or for costs of living increases, Landlord may make such determinations based upon the amount of increases in operating costs and costs of living increase for the full year immediately prior to such default;

(d) Landlord, at its option, may serve notice upon Tenant that this Lease and the then unexpired term hereof and all renewal options shall cease and expire and become absolutely void on the date specified

in such notice, to be not less than five (5) days after the date of such notice without any right on the part of the Tenant to save the forfeiture of payment of any sum due or by the performance of any terms, provision, covenant, agreement or condition broken; and, thereupon and at the expiration of the time limit in such notice, this Lease and the term hereof granted, as well as the right, title and interest of the Tenant hereunder, shall wholly cease and expire and become void in the same manner and with the same force and effect (except as to Tenant's liability) as if the date fixed in such notice were the date herein granted for expiration of the term of this Lease. Thereupon, Tenant shall immediately quit and surrender to Landlord the Premises, and Landlord may enter into and repossess the Premises by summary proceedings, detainer, ejectment or otherwise and remove all occupants thereof and, at Landlord's option, any property thereon without being liable to indictment, prosecution or damages therefor. No such expiration or termination of this Lease shall relieve Tenant of its liability and obligations under this Lease, whether or not the Premises shall be relet;

(e) Landlord may, at any time after the occurrence of any event of default, re-enter and repossesses the Premises

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and any part thereof and attempt in its own name, as agent for Tenant if this Lease not be terminated or in its own behalf if this Lease be terminated, to relet all or any part of such Premises for and upon such terms and to such persons, firms or corporations and for such period or periods as Landlord, in its sole discretion, shall determine, including the term beyond the termination of this Lease; and Landlord shall not be required to accept any tenant offered by Tenant or observe any instruction given by Tenant about such reletting or do any act or exercise any care or diligence with respect to such reletting or to the mitigation of damages. For the purpose of such reletting, Landlord may decorate or make repairs, changes, alterations or additions in or to the Premises to the extent deemed by Landlord desirable or convenient; and the cost of such decoration, repairs, changes, alterations or additions shall be charged to and be payable by Tenant as Additional Rent hereunder, as well as any reasonable brokerage and legal fees expended by Landlord; and any sums collected by Landlord from any new tenant obtained on account of the Tenant shall be credited against the balance of the rent due hereunder as aforesaid. Tenant shall pay to Landlord monthly, on the days when the rent would have been payable under this Lease, the amount due hereunder less the amount obtained by Landlord from such new tenant;

(f) Landlord shall have the right of injunction, in the event of a breach by Tenant of any of the agreements,

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conditions, covenants or terms hereof, including the actual vacation of the Premises at the end of the term, to restrain the same and the right to invoke any remedy allowed by law or in equity, whether or not other remedies, indemnity or reimbursements are herein provided. Landlord shall have the right of distraint upon Tenant's goods pursuant to N.J.S.A. 2A:33-1 et seq. upon adequate notice consistent with due process. The right and remedies given to Landlord in this Lease are distinct, separate and cumulative remedies; and no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any of the others.

(g) In the event Tenant fails to vacate the premises upon the

expiration of this or any extended term hereunder or upon termination of this Lease, Tenant shall pay to the Landlord one hundred fifty percent (150%) the monthly rental payment for the month in which this Lease expired or terminated and for each succeeding month as liquidated damages.

This lease may only be extended beyond the expiration date by the parties executing a new lease on Landlord's then current lease form or by an extension agreement signed by both parties making specific reference to this Lease. No proposals, offers, correspondence or the like shall be legally binding upon Landlord until and unless the terms are incorporated in either a new lease or a formal amendment to this Lease as provided in paragraph 40.

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(h) In addition to all remedies provided herein or by law, Tenant shall pay to Landlord reasonable attorneys fees and court costs incurred as a result of such breach.

30. REQUIREMENT OF STRICT PERFORMANCE

The failure or delay on the part of either party to enforce or exercise at any time any of the provisions, rights or remedies in the Lease shall in no way be construed to be a waiver thereof, nor in any way to affect the validity of this Lease or any part hereof, or the right of the party to thereafter enforce each and every such provision, right or remedy. No waiver of any breach of this Lease shall be held to be a waiver of any other of subsequent breach. The receipt by Landlord of rent at a time when the rent is in default under this Lease shall not be construed as a waiver of such default. The receipt by Landlord of a lesser amount than the rent due shall not be construed to be other than a payment on account of the rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction, and Landlord may accept such payment without prejudice to Landlord's right to recover the balance of the rent due or to pursue any other remedies provided in this Lease. No act or thing done by Landlord or Landlord's agents or employees during the term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

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31. RELOCATION OF TENANT -- DELETED

32. LANDLORD'S OBLIGATIONS

Landlord's obligations hereunder shall be binding upon Landlord only for the period of time that Landlord is in ownership of the Building; and, upon termination of that ownership, Tenant, except as to any obligations which have then matured; shall look solely to Landlord's successor in interest in the Building for the satisfaction of each and

every obligation of Landlord hereunder.

33. LANDLORD'S LIABILITY

Landlord shall have no liability under any of the terms, conditions or covenants of this Lease and Tenant shall look solely to the equity of the Landlord in the Building of which the Premises form a part for the satisfaction of any claim, remedy or cause of action accruing to Tenant as a result of the breach of any action of this Lease by Landlord.

34. SUCCESSORS

The respective rights and obligations provided in this Lease shall bind and inure to the benefit of the parties hereto, their legal representatives, heirs, successors and assigns; provided, however, that no rights shall inure to the benefit of any successors of Tenant unless Landlord's written consent for the transfer to such successor has first been obtained as provided in paragraph 19 hereof.

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35. GOVERNING LAW

This Lease shall be construed, governed and enforced in accordance with the laws of the state in which the Premises are located.

36. SEVERABILITY

If any provisions of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions hereof shall in no way be affected or impaired and such remaining provisions shall remain in full force and effect.

37. CAPTIONS

Marginal captions, titles or exhibits and riders and the table of contents in this Lease are for convenience and reference only, and are in no way to be construed as defining, limiting or modifying the scope of intent of the various provisions of this Lease.

38. GENDER

As used in this Lease, the word "person" shall mean and include, where appropriate, an individual, corporation, partnership or other entity; the plural shall be substituted for the singular, and the singular for the plural, where appropriate; and the words of any gender shall mean to include any other gender.

39. WARRANTIES OF TENANT

Tenant warrants to Landlord that Tenant dealt and negotiated solely and only with Landlord for this Lease and with no other broker, firm, company or person, other than JACKSON-CROSS COMPANY. Tenant further warrants that it is a

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corporation it is in good standing organized and existing under the laws

of the State of California, that all corporate action necessary to authorize the execution of this Lease has been taken by the Board of Directors and that the Regional Manager, DONALD R. CAST, has been authorized to execute and attest respectively this Lease.

Tenant for good and valuable consideration shall indemnify and hold Landlord harmless from and against any and all claims, suits, proceedings, damages, obligations, liabilities, counsel fees, costs, losses, expenses, orders and judgements imposed upon, incurred by or asserted against Landlord by reason of the falsity or error of this aforesaid warranty.

40. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Riders hereto, contains all the agreements, conditions, understandings, representations and warranties made between the parties hereto with respect to the subject matter hereof, and may not be modified orally or in any manner other than by an agreement in writing signed by both parties hereto or their respective successors in interest. Without in any way limiting the generality of the foregoing, this Lease can only be extended pursuant to the due exercise of an option (if any) contained herein and/or otherwise formal agreement signed by both Landlord and Tenant specifically extending the terms. No negotiations, correspondence by Landlord or offers to extend the terms shall be deemed an

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extension of the termination date for any period whatsoever without such formal agreement.

41. WAIVER OF TRIAL BY JURY

Landlord and Tenant each hereby waive the right to a trial by jury in the event any claim is made concerning the construction, interpretation or enforcement of this Lease.

42. CONSENT OF THE PARTIES

Wherever the consent of either party is required, it shall be deemed to be written consent and shall not be unreasonably withheld or delayed.

43. ADDITIONAL SCHEDULES

The following additional schedules are attached hereto and made a part of this Lease:

- Exhibit "A" -- Plan
- Exhibit "B" -- Rules and Regulations
- Exhibit "C" -- Tenant Work Letter
- Exhibit "D" -- Janitorial Specifications
- Exhibit "E" -- Renewal Option
- Exhibit "F" -- Fees
- Exhibit "G" -- Right of First Offer
- Exhibit "H" -- Amended Agreement

44. BINDING EFFECT

This Lease shall be effective only when it is signed by both the Landlord and Tenant and a fully executed copy delivered to the Tenant. The Tenant's submission of a signed Lease for review by the Landlord does not give the Tenant any interest, right or option to the Premises.

45. CESSATION OF EXISTING LEASE

Landlord and Tenant agree that, upon the Commencement Date (as defined and, potentially, amended in Paragraph 7) the existing Lease dated July 13, 1990 (and subsequently amended by various and numerous Lease Amendments) between the Landlord's predecessor and Tenant shall cease, and Tenant shall be entitled to a refund of any prepaid rent, as well as a return of Tenant's deposit monies paid to Landlord's predecessor pursuant to the July 13, 1990 Lease.

IN WITNESS WHEREOF, the parties hereto have duly executed this Lease and have initialed the Exhibits and Riders hereto in seven (7) counterparts the day and year first above written.

TENANT: qad.inc

BY /s/ Donald R. Cest

Title Regional Manager

LANDLORD: LAUREL LARCHMONT OFFICE INC.

BY /s/ James R. Lanne

Title Vice President

jp:/11/17/93

Revised 12/07/93

EXHIBIT "A"

[FLOOR PLAN]

[FLOOR PLAN]

FIRST FLOOR PLAN (EAST)

[FLOOR PLAN]

SECOND FLOOR PLAN (EAST)

[FLOOR PLAN]

SECOND FLOOR PLAN (WEST)

EXHIBIT "B"
RULES AND REGULATIONS

1. No part or the whole of the sidewalks, plaza areas, entrances, passages, courts, stairways, corridors or halls of the building or the real property shall be obstructed or encumbered by any tenant or used for any purpose other than ingress and egress to and from the space demised to such Tenant.

2. No awnings or other projections shall be attached to the outside walls or windows of the building. No curtains, blinds, shades, or screens shall be attached to or hung in, or used in connection with, any window or door of the space demised to any tenant other than those specified or supplied by landlord, removal of same at any time will be prohibited.

3. No sign, advertisement, object, notice or other lettering shall be exhibited, inscribed, painted, or affixed on any part of the outside or inside of tenant's premises, so as to be visible from the exterior without prior written consent of landlord.

4. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the building.

5. The water and wash closets and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances (including, without limitation, coffee grounds) shall be thrown therein. All repairs necessitated by damage resulting from any misuse of the plumbing fixtures shall be borne by the tenant.

6. No tenant, nor any of its agents, employees, visitors, licensees, contractors, or suppliers shall at any time bring or keep upon the leased premises any flammable, combustible or explosive fluid, chemical or substance without landlord's prior approval, and tenant shall obey fire regulations and procedures governing said leased space and building.

7. No tenant shall mark, paper, paint, bore into, make any alterations or additions to, or in any way deface any part, including equipment and fixtures, of the leased space

or the building of which it forms a part, without the prior written consent of landlord. No wires shall be installed except in conduits, ducts or outlets established for that purpose, unless prior written consent of landlord has been obtained. No tenant shall lay carpeting, so that the same shall come in direct contact with the floor of the leased space, and, if tenant desires to install carpeting, an underlayment shall be first laid, without the use of cement or other similar adhesive material. If any tenant desires to install any floor covering other than carpeting, subject to the prior written consent of landlord, such floor covering shall be installed in accordance with the manufacturer's specifications.

8. No cooking shall be done or permitted by any tenant in the leased space, without the prior written consent of landlord, provided, however, that the heating, refrigeration and preparing of beverages and light snacks for employees shall be permitted if there are appropriate facilities and equipment for such

purposes. No tenant shall cause to permit any unusual or objectionable odors to be produced upon or emanate from the leased space.

9. Neither the whole nor any part of the space demised to any tenant shall be used for manufacturing, without prior written approval from the landlord, or for the sale at auction of merchandise, goods, or property.

10. No tenant shall make or permit to be made, any unseemly or disturbing noises or disturb or interfere with other tenants or occupants of the building or neighboring buildings or premises.

11. All moving of safes, freight, furniture or bulky matter of any description to and from the leased space, shall only take place within the confines of specified passageways or stairs, and during the hours designated by landlord. There shall not be used in any space, or in the public walkways of the building, either by the tenant or by jobbers or others, in the delivery or receipt of merchandise, and hand trucks, except those equipped with rubber tires.

12. No tenant shall use or occupy or permit any portion of the space demised to such tenant to be used or occupied as an employment bureau or for the storage, manufacture or sale of liquor, narcotics or illegal drugs.

13. Landlord shall have the right to prohibit any advertising by any tenant which in landlord's opinion, tends to impair the reputation of the building, and upon notice from landlord, such tenant shall refrain from or discontinue such advertising.

14. No space demised to any tenant shall be used, or permitted to be used, for lodging or sleeping or for any immoral or illegal purposes.

15. The requirements of tenants will be attended to only upon application at the office of landlord. Building employees shall not be required to perform, and shall not be requested by any tenant to perform, any work outside of their regular duties, unless under specific instructions from the office of landlord or the building management.

16. Canvassing, soliciting, and peddling in the buildings are prohibited, and each tenant shall cooperate to prevent the same.

17. No animals of any kind shall be brought into or kept about the building by any tenant.

18. No tenant shall install or permit or allow installation of a television, radio, or two-way radio antenna, or any other similar antenna, on the roof, in the windows or upon the exterior of the leased space of the building, without the prior written consent of landlord.

19. No tenant shall tie in, or permit other to tie into the water supply on the premises without prior written consent of the building management.

20. No tenant shall remove, alter or replace the building standard ceiling light diffusers in any portion of the leased space without the prior written consent of landlord.

21. Except for purposes of emergency, notices, posters, or advertising media will not be permitted to be affixed on the exterior of the building.

22. Business machines and mechanical equipment belonging to tenant which cause noise or vibration that may be transmitted to the structure of the building or to any space therein to such a degree to be objectionable to landlord or

to any tenant in the building shall be installed and maintained by tenant, at tenant's expense, on vibration eliminators or other devices sufficient to eliminate such noise and vibration.

23. Tenant shall immediately notify the building management of any serious breakage, or fire or disorder, which comes to its attention in its premises or any of the common areas of the building.

24. Tenant shall apply, at tenant's costs, such reasonable pest extermination measures as tenant deems reasonably necessary.

25. Tenant shall not burn any trash or garbage of any kind in or about the demised premises.

26. Tenant shall not permit the use or placement of door mats or the like on the exterior of any entrance door to the demised premises.

27. For purposes of these Rules and Regulations, the "building management" shall mean the duly designated representative of landlord to manage the building.

28. Landlord reserves the right to recind, amend, alter or waive any of the foregoing Rules and Regulations at any time when, in its judgement, it deems it necessary, desirable or proper for its best interest and for the best interest of the tenants, and no such rescission, amendment, alteration or waiver of any rule or regulation in favor of one tenant shall operate as an alteration or waiver in favor of any other tenant. Landlord shall not be responsible to any tenant for the non-observance or violation by any other tenant of any of these Rules and Regulations at any time.

ACCEPTED BY: [illegible]

ACCEPTED BY: [illegible]

[illegible]

EXHIBIT "C"
TENANT WORK LETTER

Tenant acknowledges and agrees that the entire cost and expense of tenant improvement work to be performed for the leased premises is to be at the Tenant's sole cost and expense, except that the Landlord will contribute to such expense the amount of \$25 per square foot of the leased premises.

Lessor shall be responsible for preparing all necessary construction drawings based on the floor plans submitted by the Lessee. Lessee shall have fourteen (14) days in which to review and approve final construction drawings prepared by lessor.

The lessor shall be responsible for having work shown on the final construction plans completed in good and workmanlike manner as expeditiously as possible and shall give Lessee an allowance against the cost to construct said improvements shown on the final construction plans of up to \$25.00 per rentable square foot for Lessee improvements. In the event the cost to construct said Lessee improvements exceeds \$25.00 per rentable square foot, Lessee shall be responsible for the payment of all costs in excess of said \$25.00 per rentable square foot allowance within fifteen (15) days of submission of an invoice from Lessor.

In the event, the cost to construct Lessee improvements is less than \$25.00 per rentable square foot, Lessor shall apply the remaining value of the construction allowance as a credit against Base Rent due from Lessee. Such credit shall be applied in twelve (12) equal monthly installments beginning as of the Commencement Date.

The plans and specifications for these improvements shall be mutually agreed to

by both Landlord and Tenant. Landlord will not unreasonably withhold its' approval.

Landlord is responsible to provide renovations which are required by the Americans with Disabilities Act which are not part of the above improvements, at no additional cost to Tenant.

Tenant requires the Landlord employ the design and construction services of Whitesell Services, Inc. for the purpose of continuity and expediency since time is of the essence.

If the cost of such service, in the reasonable opinion of Tenant, is not in keeping with industry standards in the region, then Tenant shall have the right to contract directly for the services. If Tenant chooses to contract directly for the services, then Tenant shall have no claim to penalties or termination defined in Paragraph 13(d) unless such delay is caused directly by Landlord.

EXHIBIT "D"
JANITORIAL SPECIFICATIONS

A. NIGHTLY - (Monday through Friday)

1. OFFICES AND COMMON AREAS
 - a. Empty waste receptacles and replace liner as needed.
 - b. Boxes of trash will also be removed if clearly labeled "trash".
 - c. Empty and wipe all ash trays.
 - d. Vacuum all carpeted areas.
 - e. Dust mop all tiled floors, baseboards and damp mop any spillages.
 - f. Dust and/or damp wipe clean the following:
 - Desks (if cleared), chairs, file cabinets, tables, lamps, pictures and frames, window sills, doors, push and switch plates and telephones.
 - g. Wash clean all water coolers and/or fountains.
 - h. Clean all glazed entrance and elevator doors.
 - i. Spot clean carpeting.
 - j. Sweep stair towers.
2. BATHROOMS
 - a. Empty and clean waste receptacles (replace liner if applicable) and wash dispensers.
 - b. Sweep and wet mop all floors using disinfectant.
 - c. Spot clean all tiled walls and partitions.
 - d. Scour, wash and disinfect all basins, bowls and urinals.
 - e. Wash and polish all mirrors, shelves and bright work including plumbing fixtures.
 - f. Refill all paper products and soap dispensers.

B. WEEKLY

1. OFFICES AND COMMON AREAS.
 - a. Render high dusting of all pictures, frames, doors, partitions pipes, louvers, etc.
2. BATHROOMS.
 - a. Spray buff tiled floors.

C. MONTHLY

1. OFFICES AND COMMON AREAS.
 - a. Clean all interior partition glass, diffusers and grills.
2. BATHROOMS.
 - a. Machine wash and refinish floors.

D. EVERY THREE MONTHS

1. OFFICES AND COMMON AREAS.
 - a. Strip and refinish all tiled flooring as appropriate.
2. STAIR TOWERS.
 - a. Damp mop all floors.

E. EVERY SIX MONTHS

1. WINDOWS.
 - a. Wash clean all interior and exterior windows.

F. ANNUALLY

1. COMMON AREAS AND TENANT SPACES.
 - a. Carpet cleaning.

Revised:11/12/93

EXHIBIT "E"
RENEWAL OPTION

(A) So long as Tenant is not in default under this Lease, Landlord grants to Tenant the option to extend the term of this Lease from the date of termination of the initial term for an additional term of five (5) years (the "First Renewal Term") upon all of the terms, conditions and provisions set forth in this Lease, except that the yearly Minimum Rent payable under Section 8(A) of this Lease for each Lease Year (hereinafter defined) of the Renewal Term shall be as set forth below in this Exhibit "E". To exercise the option to renew, Tenant shall give Landlord written notice of such exercise not less than one hundred eighty (180) days prior to the expiration of the initial term.

(B) The Minimum Rent payable under Section 8(A) of this Lease for the Lease Year of the Renewal Term shall be calculated on a fixed rental rate of \$14.00 per square foot, \$801,794.00 per year, \$66,816.17 per month.

(i) The term "Lease Year" as used in this Exhibit "E" shall mean the twelve (12) calendar months commencing with the first day of the first full calendar month of the initial term or the Renewal Term of this Lease, as applicable and the succeeding twelve (12) calendar month periods.

Upon execution of the Renewal Option, Landlord shall provide Tenant within a reasonable time, and at no additional cost to the Tenant, refurbishment of the Premises including repainting all painted surfaces and new carpet installation in a quality equivalent to the initial carpet.

LANDLORD:

TENANT:

BY /s/ James P. Lanno

BY /s/

James P. Lanno

EXHIBIT "F"

FEEES

In the event of suit or other proceeding between the partners hereto with respect to this Lease, the prevailing party shall, in addition to other such relief as the Court may award, be entitled to recover reasonable attorney's

fees, expenses and costs of investigations.

/s/
/s/

EXHIBIT "G"
RIGHT OF FIRST OFFER

Provided that Tenant is not then in default hereunder, Landlord shall offer in writing to lease to Tenant any space in the building as to which Landlord has made a bona fide offer to lease to any other prospective tenant (hereafter, a "Qualified Offer"). Said right of first offer shall be subject to all rights of first offer previously granted other tenants in the building and the following conditions:

- a) At the time Landlord makes any Qualified Offer, Landlord shall give Tenant written notice specifying (i) the identity of the proposed tenant; (ii) the square footage proposed to be leased and it's location within the Building and (iii) the proposed commencement date.
- b) If Tenant intends to exercise it's right of first offer as to the space described in Landlord's notice, Tenant shall give Landlord written notice of such intent. Such notice must be received by Landlord not later than 5:00 p.m. pre-Tenant's receipt of Landlord's notice described in (a) above.
- c) If Tenant fails to give timely notice in accordance with subparagraph (b) above, Landlord may lease such space to the party and on the terms specified in it's notice to Tenant, however, in the event a lease is not consummated with the party identified in Landlord's notice, Tenant's right of first offer shall again apply to the pertinent space and Landlord shall notify Tenant of any subsequent offer from or to any other party to lease same.
- d) If Tenant properly exercises it's right of first offer granted hereby, that portion of space herein described, will be leased, as of the commencement date specified in Landlord's notice, on the terms and conditions applicable to the Premises, including the same basic rent per rentable square foot except as follows:
 - (i) In the event the cost (per rentable square foot) to Landlord of constructing leasehold improvements comparable to those described in the Building Standard Tenant Work Letter attached hereto as Exhibit "C" is either higher or lower than the cost of such improvements to the Premises, the basic rent set forth in Paragraph 8(a) will be increased or decreased, as appropriate, by an amount equivalent to such cost differential.

The amount of said cost differential, if any, will be determined by comparing the total work letter cost computed in accordance with the most recent "Dodge Report" available as of (1) the date of this lease and (2) the date of Tenant's notice of it's intent to exercise the foregoing option. The cost set forth in each such "Dodge Report" shall be conclusive as to any individual work letter item.

- (ii) Tenant's pro rata share of operating expenses under Paragraph 8(b) of the Lease shall be amended.
- (iii) The description of (and Exhibits depicting) the "Premises" in Paragraph 5 of the lease shall be amended.

/s/
/s/

EXHIBIT "H"
AMENDED AGREEMENT

EARLY TERMINATION OF LEASE

Notwithstanding anything to the contrary contained in this Lease, Lessee, at its option, may cancel and terminate this Lease effective as of the end of the sixtieth (60th) month of the term, provided, as conditions of such termination and cancellations: (a) Lessee gives written notice to the Lessor at least one hundred and fifty (150) days prior to the commencement of the sixtieth (60th) month in the term of its intent to terminate the Lease, (b) Lessee pays to Lessor an amount equal to \$12.00 per rentable square foot to cover the unamortized portion of those costs and expenses incurred by Lessor in connection with this Lease, and (c) Lessee continues to perform all their terms and conditions of the Lease until the date of its cancellation and termination.

/s/
/s/

AMENDMENT TO MULTI-TENANT OFFICE LEASE

AGREEMENT made as of the 26th day of April, 1994, by and between EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. ("Landlord") and qad, inc. ("Tenant").

W I T N E S S E T H:

WHEREAS, Tenant and Laurel Larchmont Office, Inc. ("LLO") executed and delivered a multi-tenant office lease (the "Lease") for certain premises commonly known as Suites 103 East, 105 East, 200 East, and 200 West (the "Premises") in the building known as 10,000 Midlantic Drive, Mount Laurel, New Jersey; and

WHEREAS, LLO assigned the Lease to Landlord on or about December 31, 1993; and

WHEREAS, under Section 13(c) of the Lease, Tenant was required to furnish to Landlord and approve certain plans for work specified on Exhibit C to the Lease ("Tenant Improvements") by January 31, 1994, and, under Section 13(d) of the Lease, Landlord was required to substantially complete the Premises, subject to extensions for delays caused by Tenant and/or by force majeure, by June 1, 1994; and

WHEREAS, Tenant was unable to furnish plans for Tenant Improvements to Landlord until April, 1994; and

WHEREAS, the parties agree that the Commencement Date shall be extended; and

WHEREAS, the parties wish to adopt procedures to enhance the speed at which the Premises will be completed;

NOW, THEREFORE, in consideration of the premises, and the

mutual covenants and agreements hereinafter set forth, the parties hereby agree that the Lease is amended as follows:

1. The first sentence of Section 7 of the Lease is deleted in its entirety, and the following is substituted therefor:

"The term of this Lease shall be seven (7) years, zero (0) months commencing September 1, 1994 ("Commencement Date") and ending at 12:00 noon on August 31, 2001."

2. In addition to any other actions, inactions, causes or events that may cause or result in the postponement or extension of the Commencement Date under the terms and provisions of the Lease, the Commencement Date shall be postponed by the number of days of delay caused by or resulting from any one or more of the following:

(a) The failure of the plans by the Landlord for Tenant Improvements to be bid, awarded, and approved on a "fast track" basis.

(b) The failure of Township officials to grant a building permit for Tenant Improvements within twenty (20) days after the application for such permit is submitted.

(c) The inclusion by the Landlord of any "long lead time" items in the plans for Tenant Improvements.

(d) The failure of Tenant to respond to the applicable party as to any decisions with respect to Tenant Improvements, change orders, or the completion

of the Premises within forty eight (48) hours after such a decision is requested, orally or in writing.

3. In order to expedite the completion of the Premises, the parties agree that the following will apply to work required to complete the "Project", which for purposes of this Agreement shall

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mean the completion of the Premises, including without limitation the completion of Tenant Improvements:

(a) Landlord will engage Cosensa & Associates, Inc. ("C & A") an independent Project Administrator, responsible to both Landlord and Tenant, to oversee and expedite the Project. C&A's fee shall not exceed three percent (3%) of the total cost of completing the Project. The fee will be included in Tenant's construction allowance of \$25.00 per rentable square foot, granted under Exhibit C to the Lease.

(b) Tenant hereby designates Linda K. Rickard as its representative who will have full authority to make binding decisions on behalf of Tenant with respect to the Project, including without limitation authority to approve plans, specifications, modifications, architects, and general contractors. Tenant must cause Ms. Rickard to be available at all times when work on the Project is occurring.

4. This Amendment supersedes and cancels all prior agreements between the parties hereto with respect to the subject matter hereof,* including without limitation the provisions of paragraphs 1, 2, and 3 of the letter agreement between the parties dated April 19, 1994 and countersigned by Tenant on April 26, 1994.

5. Except as expressly set forth herein, the Lease is hereby in all respects ratified, confirmed and approved.

*including the additional construction and expense clause and penalty clause contained in Paragraph 13(c) of the lease, and

3

IN WITNESS WHEREOF, this Amendment has been duly executed on behalf of each of the parties hereto as of the day and year first above written. *

qad, inc., Tenant

By: /s/

EDB Property Partners, LP III
Landlord

By: Emmes Laurel Property Corp.,
A Delaware Corporation
General Partner

By: /s/ Andrew Davidoff

- * There is attached hereto a Rider which amends the terms of this document and which is hereby incorporated into this document by reference.

RIDER

Notwithstanding anything to the contrary contained in this Amendment:

1. The parties agrees that: (1) Landlord has not caused a delay under Paragraphs 2 (a) and (b) above and that (2) these Paragraphs are now null and void for all purposes;
2. The parties agree that, as of June 2, 1994, Landlord had caused no delay under Paragraph 2 (c) of the Amendment;
3. The following language is added to the end of the Paragraph 2 (d) of the Amendment:

Provided, however, that if Tenant fails to respond to an initial inquiry from Landlord within forty-eight hours, Landlord may then provide Tenant with a failure to respond notice ("Second Failure Notice"). Should Tenant (once again) fail to respond within forty-eight hours after Tenant's receipt of the Second Failure Notice, then Tenant shall be liable to Landlord for: (a) any rent foregone by Landlord, and (b) any additional construction costs incurred, both as a result of Tenant's failure to respond in a timely matter, under terms of existing lease.

4. The first sentence of Paragraph 13 (c) of the lease is hereby deleted and replaced with the following:

If Tenant makes any changes to the plans for its space after June 2, 1994, and such changes cause a delay in the Commencement Date or an increase in the construction costs for the space, then Tenant shall pay to Landlord as rent hereunder: (1) any rent foregone by Landlord as a result of said delay, (2) any operating expenses incurred by Landlord (which would have been otherwise paid by Tenant) as a result of said delay, and (3) any increase in construction costs carried by said delay, all of which payments shall be due and payable under the terms of the existing lease.

5. Paragraph 4 of the Amendment is hereby deleted and replaced with the following:

Where this Amendment conflicts with the terms of the Lease or any other prior written or oral agreement between the parties, the terms of this Amendment shall control and be paramount. Notwithstanding the foregoing, the letter agreement between the parties dated April 19th, 1994 (a copy of which is attached hereto and incorporated herein by reference) is now null and void for all purposes, except paragraph 4. The parties agree that Paragraph 4 of the letter is incorporated into a pre-existing lease dated July 13, 1990 for 2000 Midlantic Drive by Amendment #7.

April 19, 1994

Linda K. Rickard
Manager, Regional Administrative Services
gad inc.
2000 Midlantic Drive

Suite 100
Mt. Laurel, NJ, 08054

Re: Lease agreement between gad, inc., (Tenant), and Laurel Larchmont
Offices, Inc. (Landlord), for 10000 Midlantic Drive, Mt. Laurel, NJ
assigned to EDB Property Partners, LP III as Landlord on December 31,
1993

Dear Linda:

The following recaps our discussion with Andrew Davidoff on Friday, April 15
concerning the tenant improvements for the above referenced Lease Agreement:

The Lease was drafted with the intention that gad would submit tenant
improvement plans to us for our approval by January 31, 1994, in order for
the tenant improvements to be completed by June 1, 1994. We received the
tenant improvement plans in early April and thus will not be able to complete
construction by June 1, 1994, as originally intended.

To assist gad in expediting the tenant build out, we will modify the Lease as
follows:

1. Cosenza & Associates, Inc. will be engaged as an independent
project administrator, jointly responsible to both Landlord and Tenant,
to oversee and expedite the construction of your space. Cosenza &
Associates' fee which may be up to 3% of the total project cost, will
be included in the \$25.00 per square foot tenant allowance specified
in the Lease.
2. The rent commencement and substantial completion dates specified
in the Lease will be changed from June 1, 1994 to September 1, 1994.
This is an aggressive deadline and therefore requires the following to
occur:
 - a. The project must be designed, bid, awarded, and approved by the
Township building code officials on a "Fast Track" basis. There must
be no "long lead time" items on the Tenant's specifications.

April 19, 1994

-2-

Linda K. Rickard

- b. Tenant schematic drawings submitted to Cosenza & Associates are
complete and fully approved by gad.
 - c. Project decisions required from gad, from this date forwarded,
will be received within 48 hours after receipt of same.
 - d. A maximum of two architectural firms will be asked to bid on
project drawings. A maximum of four general contractors will be
asked to bid on project construction. gad will approve the architects
and general contractors asked to bid.
 - e. gad will appoint one representative of gad, inc. who will be
on-site and fully authorized to make decisions, such as approving
plans, specifications, modifications, etc., within the 48 hours
specified in paragraph 2.c.
3. We will provide architectural and engineering plans and tenant
improvements as per the Lease Agreement referenced above.
4. Regarding the rent commencement date for the additional space gad
currently occupies at 2000 Midlantic Drive, gad agrees to begin paying,
as of July 1, 1994 additional annual rent of \$7.00 per square foot.
The additional rent is calculated and paid in advance on a monthly
basis. Attached is a copy of the Lease Amendment, outlining the terms

of this agreement, which was submitted to you for your execution on
April 8, 1994.

Please indicate your agreement with the above by signing as designated below
and I will institute the necessary lease modifications. If you have any
questions, please contact me immediately at (609) 439-1414.

Kind Regards,

/s/ Anthony S. Rimikis

Anthony S. Rimikis
General Manager

Approved: /s/ Linda K. Rickard

Linda K. Rickard

Date

cc: Andy Davidoff

[LETTERHEAD]

January 10, 1994

FEDERAL EXPRESS

- -----
Ms. Linda K. Rickard
Manager - Regional Administrative Services
QAD Inc.
2000 Midlantic Drive
Suite 100
Mount Laurel, New Jersey 08054

Re: Multi-Tenant Office Lease between
Laurel Larchmont Office, Inc. and
QAD, Inc.
Premises: 10000 Midlantic Drive
Mount Laurel, New Jersey

Dear Ms. Rickard:

This law firm represents EDB Property Partners L.P. III, the entity
which acquired title to the captioned property from Laurel Larchmont Office,
Inc. on December 30, 1993. On behalf of the new owner of the premises, I am
enclosing one fully executed copy of the captioned Lease. Please be advised
that this Lease was assigned to the new owner in connection with the sale of
the premises. I have also enclosed for your file a copy of a letter dated
December 30, 1993 from the previous owner advising of the transfer of title.

All future payments under the Lease should be directed to EDB
Property Partners L.P. III, care of Emmes Asset Management Corp., 52
Vanderbilt Avenue, Suite 1510, New York, New York 10017. Any inquiries
regarding the premises and the Lease should be directed to Mr. Andrew
Davidoff at Emmes Asset Management

[LETTERHEAD]

Ms. Linda K. Rickard
January 10, 1994
Page 2

Corp., who may be reached by telephone at 212-867-5050 (Extension 306).

Very truly yours,

/s/ Gary S. Kleinman

Gary S. Kleinman

GSK:bmw

Encl.

cc: Mr. Andrew Davidoff
(by hand, w/encl.)

LAUREL LARCHMONT OFFICE, INC.
c/o Midlantic National Bank
499 Thornall Street
P.O. Box 600
Edison, New Jersey 08818

December 30, 1993

Qad Inc.
10000 Midlantic Drive
Mt. Laurel, New Jersey

Attention: Linda K. Richard, Manager,
Regional Administration Services

Re: Lease between Laurel
Laurel Office Inc. and Qad Inc.
Premises: 10000 Midlantic Drive
Mt. Laurel, New Jersey

Dear Ms. Richard:

We have enclosed for your files one (1) fully executed original of the captioned Lease, which has been dated as of December 29, 1993.

Please be advised that the Premises were sold to EDB Property Partners L.P. III on December 30, 1993.

Accordingly, all future payments and inquiries regarding the Premises and the Lease should be directed to the managing agent for the new landlord as follows:

EDB Property Partners L.P. III
c/o Emmes Asset Management Corp.
52 Vanderbilt Avenue, Suite 1510
New York, New York 10017
Attention: Andrew Davidoff
(212) 867-5050

Thank you for your attention to this matter.

Very truly yours,

LAUREL LARCHMONT OFFICE, INC.

By: /s/ James Lanno

James Lanno
Vice President

LANDLORD: LAUREL LARCHMONT OFFICE, INC.
TENANT: qad, inc.
PREMISES: 10000 MIDLANTIC DRIVE, SUITE
MOUNT LAUREL, NEW JERSEY

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MULTI-TENANT OFFICE LEASE

1. DATE OF LEASE:
2. LANDLORD: Laurel Larchmont Office, Inc.
Address of Landlord: c/o Midlantic National Bank
499 Thornall Street
P.O. Box 600
Edison, New Jersey 08818
3. TENANT: qad, inc.
Address of Tenant: 6450 Via Real
Carpinteria, California 93013
Tenant's SIC Number: 7757
4. NOTICES

Wherever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other party, such notice or demand shall be deemed to have been duly given or served if in writing and either personally served or forwarded by Registered or Certified Mail, Return Receipt Requested postage prepaid, and addressed as follows:

LANDLORD: Laurel Larchmont Office, Inc.
c/o Midlantic National Bank
499 Thornall Street
P.O. Box 600
Edison, New Jersey 08818

TENANT: qad, inc.
10000 Midlantic Drive
Suites 103 East, 105 East, 200 East and 200 West
Mount Laurel, New Jersey 08054

Each such mailed notice shall be deemed to have been given to or served upon the party to which addressed two (2) days after the date the same is deposited in the United States Registered or Certified Mail, postage prepaid, and

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properly addressed in the manner above provided. Either party hereto may change its address to which said notices shall be delivered or mailed by giving written notice of such change to the other party hereto as herein provided.

5. PREMISES

(Include street address, approximate square footage, suite number, and lot & block number)

10000 Midlantic Drive
Suites 105 East, 200 East and 200 West
Mount Laurel, New Jersey 08054

R.S.F. Suite 103 East	3,384 sf.
Suite 105 East	9,412 sf.
Suite 200 East	22,287 sf.
Suite 200 West	22,188 sf.

Total:	57,271 sf.
Block #513, Lot #3	

As identified on Exhibit "A" ("Premises") in the building known as 10000 MIDLANTIC DRIVE ("Building").

Landlord, for and in consideration of the rent to be paid and the covenants and agreements to be performed by Tenant, as hereinafter set forth, does hereby lease, demise and let unto Tenant the Premises, together with the right to use in common with the other tenants in the Building, six (6) parking spaces per 1,000 square feet located adjacent to the Building and non-exclusive use of the walks, access roads and land surrounding the Building and the common areas in the Building.

6. USE OF PREMISES

The Tenant covenants and agrees to use the Premises as OFFICE AND RELATED PURPOSES. Tenant agrees not to use or permit the Premises to be used for any other purpose without

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the prior written consent of the Landlord endorsed hereon. No machinery, equipment or other thing that could cause unusual vibration, noise, odor

or fumes shall be installed or placed therein. Tenant shall not use or occupy the Premises for any other purpose or business without the prior written consent of Landlord which consent Landlord agrees shall not be unreasonably withheld. Tenant shall not subject any portion of the floor to greater loading than that portion of the Premises is designed to carry.

Tenant shall observe and comply with the rules and regulations attached hereto, as Exhibit "B", as well as applicable laws and governmental regulations as currently or hereinafter enacted and to all reasonable requirements of the insurer of the Premises or other Building which the Premises are a part. Tenant agrees to promptly furnish Landlord with a copy of any notice that it receives that it is in violation of any applicable law or governmental regulations.

7. TERM

The term of this Lease shall be SEVEN (7) YEARS, ZERO (0) MONTHS commencing on June 1, 1994 ("Commencement Date") and ending at 12:00 noon on May 31, 2001. In no event shall Landlord be liable to Tenant for any actual or consequential damages in the event that Landlord is unable to deliver possession on the date indicated due to the failure of any prior Tenant to vacate the Premises at the termination of its Lease or if any work necessary to make

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the Premises ready for Lessee's occupancy is not accomplished due to shortages or unavailability of material, labor or other causes beyond Landlord's control. In the event that the Landlord is delayed in giving possession as provided herein, the termination date of the Lease shall be extended accordingly.

If the Lease term does not commence upon the date indicated above, Landlord and Tenant shall, by separate writing, set forth the date that the Lease term commenced and will terminate.

8. RENT

(a) Tenant shall pay to Landlord, without set off or deduction, at its offices, P.O. Box 600, Edison, New Jersey 08818 or such other place as Landlord directs, rental as set forth below:

TERM	PSF RATE	MONTHLY RENT	ANNUAL RENT
Year 1	\$12.00 (x 45,271 sf)	\$45,271.00	\$543,252.00
Year 2	\$12.00	\$57,271.00	\$687,252.00
Years 3 thru 5	\$12.50	\$59,657.29	\$715,887.50
Years 6 and 7	\$13.00	\$62,043.58	\$744,523.00

Payable on the first business day of each month during the term of this Lease except that the first month's rent shall be payable upon the execution of this Lease.

(b) In addition to the minimum annual rental, Tenant shall pay to Landlord its proportionate share of all operating costs incurred during each calendar year (pro rated where appropriate) during the term of this Lease.

This operating cost shall be estimated by Landlord at the commencement of the rental term and Tenant shall pay to Landlord in addition to the basic rent and on the same day provided in paragraph 8(a) 1/12 thereof. The estimated operating cost for the year in which this Lease commences is \$7.00 per R.S.F. As an inducement to Tenant, Landlord shall fix the operating expenses during the first twelve (12) months at a rate of \$6.27 per square foot or \$29,924.10 per month. The Tenant's proportionate share is 32.62 percent (57,271 sf DIVIDED BY 175,573 sf = 32.62%). The operating expenses shall include all costs normally incurred in the maintenance and operation of an Office Building, less any charges invoiced directly to other tenants in the Building and shall include:

(i) Real estate taxes assessed on the Building, land underlying same, parking areas or other common elements including any assessments or municipal improvements;

(ii) All costs and expense directly related to the operation of the Building including preparing units for rental, lighting, cleaning, insuring, removing snow, ice and debris, policing and regulating traffic in the area immediately adjacent to the Building and depreciation of machinery and equipment used for such operation;

(iii) All costs and expense, other than those of a capital nature, of replacing paving, curbs, walkways, landscaping (including replanting and replacing flowers and

other planting), drainage and lighting facilities in the Building and areas immediately adjacent thereto;

(iv) Electricity and fuel used in lighting, heating, ventilating, and air conditioning of the Premises;

(v) Maintenance of mechanical and electrical equipment including heating, ventilating and air conditioning equipment in the Premises;

(vi) Window cleaning and janitorial service, including janitorial equipment and supplies;

(vii) Maintenance of elevators, rest rooms, lobbies, hallways and other common areas of the Building;

(viii) Wages for personnel directly involved in the building management and operation, including all taxes payable by Landlord thereon and fringe benefits;

(ix) Water and sewer rents, charges and standby fees; and

(x) Accounting fees, management fees and legal fees which directly benefit the overall operation of the Building, it is expressly agreed that legal fees incurred in an action against an individual tenant shall not be deemed includable as an operating expense pursuant to this provision.

(xi) All costs associated with maintaining, operating and monitoring any security system or sprinkler system.

(xii) Any other expense or charge which would be considered an expense of maintaining, operating or repairing the Premises under sound accounting principles.

The operating expense increases shall not exceed five percent (5%) cumulatively per year except for the first year's fixed rate as it affects the second year's adjustment, not including those items outside of Landlord's direct control such as taxes and utilities, which shall not be capped.

Notwithstanding anything to the contrary contained herein, capital expenditures and the costs of preparing any other unit for rental shall not be included as operating costs. However, if Landlord incurs any capital expense for an improvement required by virtue of any governmental statute, ordinance or regulation then Landlord shall be permitted to recover on an amortized basis the portion of the capital costs applicable to the term of this Lease including any renewal or extension. Similarly, should Landlord make any capital improvement which reduces the operating costs payable hereunder then Landlord shall be permitted to recover the amortized costs as aforesaid but in no case shall the expense allocated to Tenant exceed the cost savings achieved by the capital improvement.

Within sixty (60) days after the expiration of each calendar year, Landlord shall furnish Tenant with an accounting of the actual operating expenses. If the actual operating expenses are less than the estimated expenses paid

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by the tenant the difference will be credited against all rental payments immediately due following the issuance of credit. In the event that the operating expenses exceed the estimates then Tenant shall pay to Landlord the difference within twenty (20) days of receipt of the accounting. The estimated payment for the current year shall then be adjusted to reflect the actual operating costs of the prior year.

(c) When used in this Lease pro rata shall be a percentage obtained by dividing the square footage of the Premises by the square footage of the Building in which the Premises are located. The percentage for the Premises is 32.62 percent.

(d) In determining Operating Expenses, if less than 95% of the rentable area of the Building have been occupied by tenants for more than thirty (30) days during such year, operating expenses shall be deemed for such year to be an amount equal to the like expenses which would normally be expected to be incurred had such occupancy of the Building been 95% throughout such year, as reasonably determined by Landlord.

9. LATE PAYMENT

Rent is due and payable on or before the first day of each month. Rent received after the tenth (10th) of the month is subject to a late charge of six percent (6%) of the monthly payment which charge must accompany rent. An

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additional charge will be made for checks returned for insufficient funds.

10. SECURITY DEPOSIT - DELETED

11. SIGNS

Landlord shall place a building standard sign upon the Tenant's door and a listing in the directory on the first floor. Tenant shall not post any sign or other listing in the windows or upon the exterior of the Building.

12. EXCESS USE OF ELECTRICITY

Landlord shall bill Tenant separately and Tenant shall pay to Landlord, at its then prevailing rate, an hourly fee for excess costs incurred for electricity, heating and air conditioning beyond the Building's normal operating hours. These hours are defined as follows:

Weekly business days: 8:00 AM to 7:00 PM
Customer Service Area: 8:00 AM to 9:00 PM
(All Areas) Saturday: 8:00 AM to 1:00 PM

Tenant shall have direct control of lighting at all hours.

13. CONDITION OF PREMISES

(a) Before the Commencement Date, Landlord will substantially complete the construction of the Building or any improvements to the Premises (if not substantially completed as of the date of this Lease) to the stage that the Building is operable for Tenant's purposes, which shall be defined as occurring when the public entrances of the Building, including ground floor lobbies and public hallways of the floor containing the Premises (or portions of said lobbies and hallways necessary to provide reasonable and

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safe access to the Premises) are substantially completed and elevators necessary to provide services to the Premises, the heating and air conditioning system (as required for the season and then prevailing climate) and all other mechanical systems required for service to the Premises are in regular operation.

(b) The Premises shall be deemed to be substantially completed when all work specified to be done in Exhibit "C" ("Tenant Finish") have been substantially completed, except for: (i) minor items of finishing and construction of a nature which are not necessary to make the Premises reasonably tenantable for the permitted use, and; (ii) items not then completed because of delay by Tenant in furnishing any drawings, plans or approvals (collectively, "Plans") required by Exhibit "C" or because of approved requests made by Tenant subsequent to delivery of Plans, or changes or additions therein.

(c) If Tenant fails to furnish or approve space plans by January 31, 1994, or makes any changes in such plans after said date, Tenant shall bear any additional construction or other expense to Landlord caused directly by any delay in furnishing the Plans or by any such changes and shall pay Landlord as a portion of rent, at the Commencement Date, an amount equal to the aggregate number of days lapsed between the delivery date set forth in Exhibit "C" and the actual delivery dates, multiplied by 1/365th of the annual base rent, plus an amount of additional rent attributed to such

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period as reasonably estimated by Landlord. Landlord and Tenant, understanding the difficulty in determining or estimating the actual damages that will result from Tenant's lateness in delivering Plans, have agreed upon the foregoing as an appropriate method of liquidating such damages.

(d) Landlord shall have the Premises substantially completed by the Commencement Date, except for delays due to Force Majeure or Tenant's failure to timely furnish or approve the Plans, any of which shall extend the Commencement Date for a period equal to a total of the duration of each such delay. If the Premises is not substantially completed within one (1) month of the Commencement Date, Landlord shall credit Tenant one (1) day of "free" rent for each late day as penalty, or if not completed within THREE (3) months following the Commencement Date, as the same may be extended in accordance herewith, Tenant, as Tenant's sole right thereby arising, may terminate this Lease by notice to Landlord given thereafter, provided that the terms shall not have commenced within thirty (30) days after the giving of such notice by Tenant. This Lease shall terminate in such case upon expiration of thirty (30) days after Landlord's receipt of such notice without substantial completion having occurred, whereupon Landlord shall return all rent and the security deposit paid by Tenant to Landlord in advance, and all further obligations of the parties hereunder shall end. It is understood that in the event of such termination by Tenant,

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Landlord shall have no responsibility to reimburse Tenant for any cost or expense which Tenant may have directly or indirectly incurred with respect to this Lease or the projected occupancy of the Premises, whether arranging for or terminating of arrangements for other space, or any alterations to the Premises of otherwise except for reasonable legal fees.

(e) The taking of possession of the Premises by Tenant shall conclusively establish that the Premises and the Building were at such time in satisfactory condition, order and repair, subject only to a punch list which will be prepared prior to the time the Tenant takes possession.

(f) The Tenant shall quit and surrender the Premises at the end of the term in as good condition as received except for reasonable wear and tear.

14. REPAIRS AND MAINTENANCE

(a) Except as specifically otherwise provided in paragraph (b) and (c) of this paragraph, Tenant, at its sole cost and expense and throughout the term of this Lease, shall keep and maintain the Premises including carpeting in good order and condition, free of accumulation of dirt and rubbish, and shall promptly make all repairs necessary to keep and maintain such good order and condition reasonable wear and tear excepted, whether such repairs are interior or exterior, ordinary or extraordinary, foreseen or unforeseen. When used in this Article 14, the term "repairs" shall include replacements and renewals when necessary. All

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repairs made by Tenant shall utilize materials and equipment which are at least equal in quality and usefulness to those originally used in constructing the Building and the Premises.

(b) Landlord, throughout the term of this Lease and at Landlord's sole cost and expense, shall make all necessary repairs to the footings and foundations and the structural steel columns and girders forming a part of the Premises, providing however, that Landlord shall have no responsibility to make any repair unless and until Landlord receives written notice of the need for such repair. Tenant shall pay the cost of any repairs made pursuant to this paragraph if same are occasioned by the act, omission or negligence of Tenant, its employees or invitees.

(c) Landlord shall make all necessary repairs to the roof, walls, exterior portions of the Premises and the Building, utility lines, equipment and other utility facilities in the Building, which serve more than one tenant of the Building, and to any driveways, sidewalks, curbs, loading, parking and landscaped areas, and other exterior improvements on the property; provided, however, that Landlord shall have no responsibility to make any repairs unless and until Landlord received written notice of the need for such repair. Tenant shall pay its proportionate share of the cost of all repairs to be performed by Landlord pursuant to this subparagraph (c) as additional rent promptly upon being billed therefore.

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(d) Landlord shall not be liable by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations, additions or improvements in or to the Premises or the Building or to any appurtenances or equipment therein. There shall be no abatement of rent because of such repairs, alterations, additions or improvements, except as set forth in the "Fire or Other Casualty" Section 24 hereof.

15. ALTERATIONS AND TRADE FIXTURES

Tenant shall have the right to make any reasonable alterations, additions, or improvements with Landlord's prior written consent and all alterations, additions or improvements made by either of the parties hereto upon the Premises, except moveable and detached or detachable office furniture, and moveable partitions, and moveable machinery and equipment put in at Tenant's expense, shall be the property of Landlord, and shall remain upon and be surrendered with the Premises, as part thereof at the termination of this Lease.

Any property or fixtures which remain upon the Premises after the expiration of the Lease shall be deemed abandoned by Tenant and Landlord may take possession of same and dispose of in any reasonable manner without any further liability of Landlord to Tenant. Any costs associated with the removal of such property shall be payable by Tenant.

All labor and materials furnished by or on behalf of Tenant under or pursuant to this Lease shall be first class,

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no less than the caliber and quality which exists in the Premises and by contractors approved in writing by Landlord and shall be accomplished at times so as not to disturb the activities of other tenants. Tenant shall not install any alterations, additions or improvements in such a manner as to compromise the structural integrity of the Premises or any part thereof. The labor and materials shall be installed in complete conformity to all applicable statutes, codes, ordinances and regulations.

Landlord agrees that it will not unreasonably withhold or delay its consent to any proposed addition, alteration or improvement. Tenant agrees that it will submit to Landlord sealed plans and specifications along with the name and address of the proposed contractor and all subcontractors as part of any request made hereunder. Prior to commencing the work, Tenant will furnish Landlord with copies of all governmental permits and certificates establishing that its contractor and subcontractors have adequate insurance coverages. Upon completion of the work, Tenant will submit to Landlord as-built drawings and certificates of inspection certifying the satisfactory completion of the alteration, addition or improvement.

Landlord either has or is in the process of installing a master key system. Tenant therefore agrees that under no circumstances will it change any of the exterior locks thereby making it impossible for the Landlord to gain access with its master key.

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16. ACCESS TO PREMISES

Landlord, its employees and agents shall have the right to enter the Premises at all reasonable times upon twenty-four (24) hour notice except in the case of emergency, for the purpose of examining or inspecting the same, showing the same to prospective purchasers, mortgagees or tenants of the Building, and making such alterations, repairs, improvements or additions to the Premises or to the Building as may be necessary. If representatives of Tenant shall not be present to open and permit entry into the Premises at any time when such entry by Landlord is necessary or permitted hereunder, Landlord may enter by means of a master key (or forcibly in the event of an emergency) without liability to Tenant and without such entry constituting an eviction of Tenant or termination of this Lease. Tenant shall not change any lock leading into the Premises whereby Landlord would not be able to enter with a master key.

17. ECRA COMPLIANCE

Tenant shall, at Tenant's own expense, comply with the Environmental Cleanup Responsibility Act, N.J.S.A. 13:1K-6 et seq. and the regulations promulgated thereunder ("ECRA"). Tenant shall, at Tenant's own expense, make all submission to, provide all information to, and comply with all requirements of, the Bureau of Industrial Site Evaluation ("the Bureau") of the New Jersey Department of Environmental Protection ("NJDEPE"). Should the Bureau or any other division of NJDEPE determine that a cleanup plan be prepared

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and that a cleanup be undertaken because of any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease, then Tenant shall, at Tenant's own expense, prepare and submit the required plans and financial assurances, and carry out the approved plans. Tenant's obligations under this paragraph shall arise if there is any closing, terminating or transferring of operations of an industrial establishment at the Premises pursuant to ECRA. At no expense to Landlord, Tenant shall promptly provide all information requested by Landlord for preparation of non-applicability affidavits and shall promptly sign such affidavits when requested by Landlord. Tenant shall be required to pay for only one (1) such affidavit during the term of this lease. Tenant shall indemnify, defend and save harmless Landlord from all fines, suits, procedures, claims and actions of any kind

arising out of or in any way connected with any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease; and from all fines, suites, procedures, claims and actions of any kind arising out of Tenant's failure to provide all information, make all submissions and take all actions required by ECRA Bureau or any other division of NJDEPE. Tenant's obligations and liabilities under this paragraph shall continue so long as Landlord remains responsible for any spills or discharges of hazardous substances or wastes at the Premises which occur during the term of this Lease. Tenant's failure to abide by

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the terms of this paragraph shall be restrainable by injunction.

Nothing herein is intended nor shall be it construed as imposing any environmental liability upon the Tenant for any spill or discharge occurring prior to the date that the Tenant takes possession nor shall the Tenant be required to comply with the NJDEPE closure requirements in the event that the Landlord determines to sell the Building or otherwise engages in a reorganization of some other act which triggers the NJDEPE closure requirements.

Landlord warrants to the best of its knowledge that there exists no discharges of hazardous substances or waste, or the existence of PCB's and Asbestos on the Premises and further indemnifies Tenant from such condition if in existence before Tenant's lease commencement.

18. BUILDING SERVICES

(a) Landlord shall provide within the following standards consistent with the operation of a first class office building in the Philadelphia metropolitan area:

(1) Air conditioning, ventilating and heating, at comfortable levels through the system of the Building, Monday to Friday, from 8:00AM to 7:00PM except as modified in Paragraph 12 and on Saturdays from 8:00AM to 1:00PM, excluding holidays so as to heat the Tenant's Premises to a minimum of 68 degrees F. between October 1 and May 1 and cooled to a maximum of 74 degrees F. between May 1 and October 1, subject to revision due to mandatory or voluntary

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compliance with Federal, State or Municipal laws, orders, rulings, statutes or guidelines from time to time in effect during the term of this Lease, and any renewals thereof.

(2) Electric current controllable by Tenant at all hours in such reasonable quantity as may be required by Tenant for the operation of the lighting fixtures and electrical outlets existing upon the Premises as of the date of the commencement of the Lease. If Tenant's use of electricity, in Landlord's judgement reasonably exercised, exceeds normal office use levels, Landlord may, at Tenant's expense install a submeter in the leased space to measure the electricity consumed and bill Tenant the cost thereof. In the event a meter cannot be used, a mutually agreed upon load count may be used to determine the amount of electricity used which exceeds normal levels.

(3) Landlord, at the inception of this Lease, will furnish light bulbs or fluorescent tubes for each lighting fixture then installed on the Premises at Landlord's expense and during the term of

this Lease or any renewals or extensions thereof, replace the same from time to time as needed, the labor and material of which replacements shall be billed to Tenant if overused or abused, otherwise the cost shall be included in the normal operating expense budget.

(4) Maintenance of service of the public toilet rooms in the Building.

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(5) Cleaning of outside and inside of exterior window panes.

(6) Cleaning and maintenance of common areas in the Building.

(7) Elevator service during the normal business hours set forth in subparagraph 1 above, except that a minimum of one (1) elevator shall be operational at all times;

(8) Janitor service - Exhibit "D".

Tenant shall have the right but not the obligation to contract directly for janitorial service and the cost normally included in the operating expenses shall be adjusted accordingly to reflect only the Tenant's pro rata share of building common areas. Landlord shall charge only for services customarily provided in similar buildings at rates reasonably acceptable to the industry.

Landlord does not warrant that these services shall be free from any slowdown, interruption or stoppage pursuant to voluntary agreement by and between Landlord and governmental bodies and regulatory agencies or caused by the maintenance, repair, substitution, renewal, replacement or improvement of any of the equipment involved in the furnishing of any such services, or caused by changes of services, alterations, strikes, lockouts, labor controversies, fuel shortages, accidents, acts of God or the elements or any other cause beyond the reasonable control of Landlord; and specifically no such slowdown, interruption or stoppage of any such

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services shall ever be construed as an eviction, actual or constructive, of Tenant nor shall same cause any abatement of annual basic rent or additional rent payable hereunder.

19. ASSIGNMENT AND SUBLETTING

(a) Tenant shall have no right to sublet all or any part of the Premises without the prior written approval of Landlord, except to an affiliate or subsidiary which shall not require Landlord's approval. Approval by Landlord will not be unreasonably withheld. On any approved subletting of all or any part of the Premises, (a) Landlord shall receive from Tenant fifty percent (50%) of all profit direct or indirect derived by Tenant from the subletting* and (b) Tenant shall remain liable under all terms and conditions of this Lease. In the event of default by Tenant under the terms and conditions of this Lease at such time that all or part of the Premises are then sublet, Landlord may collect directly from the subtenant(s) all rents becoming due to Tenant under the Sublease(s) and apply such rents against any sums due to Landlord by Tenant under this Lease, and Tenant hereby authorizes and directs such Subtenant(s) to make such payment of rent to Landlord upon receipt of notice from Landlord. Such collection of rent by Landlord shall not constitute a novation or a release of Tenant from its liability under the terms and conditions of this Lease.

(b) Tenant shall have no right to make an assignment of this Lease without the prior written approval of Landlord. Approval by Landlord will not be unreasonably

* excluding the sale of furniture, fixtures and equipment in the premises

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withheld. On any approved assignment of this Lease, (a) Landlord shall have the right to approve the assignee and the assignment documents (the assignee must agree therein to assume all terms, conditions, and obligations of the Lease), (b) Landlord shall receive from Tenant all profit derived by Tenant from the assignment, and (c) Tenant shall be relieved of all subsequent liability under the terms and conditions of this Lease upon the approval and completion of the assignment.

(c) The written approval of Landlord to one or more sublettings or assignments shall not operate as a waiver of Landlord's right to approve any further sublettings and assignments.

(d) Tenant shall not (a) mortgage, pledge or otherwise encumber its interest in this Lease or (b) grant any license, concession or other right of occupancy of any portion of the Premises, without the prior written consent of Landlord.

(e) As a condition precedent to Tenant's right to sublease the Premises or to assign this Lease, Tenant shall, at Tenant's own expense, comply with ECRA.

(f) Tenant shall promptly furnish to Landlord true and complete copies of all documents, submissions and correspondence provided by Tenant to the Bureau and all documents, reports, directives and correspondence provided by the Bureau to Tenant. Tenant shall also promptly furnish to Landlord true and complete copies of all sampling and

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test results obtained from samples and tests taken at and around the Premises.

(g) As a condition precedent to Tenant's right to sublease the Premises or to assign the Lease, Tenant shall have received from the Bureau either (i) a non-qualified approval of Tenant's negative declaration or (ii) a non-applicability letter, for which Tenant shall promptly apply pursuant to ECRA. If this condition shall not be satisfied, then Landlord shall have the right to withhold consent to sublease or assignment.

(h) Nothing herein to the contrary withstanding, Landlord's written consent shall not be required for any sublease or assignment of this Lease to any other entity which controls or is controlled by Tenant provided that Tenant shall continue to remain liable in such instance. Tenant shall be required to give Landlord thirty (30) days written notice in advance of any such subleasing or assignment.

(i) Tenant agrees that any subleasing or assignment to any person, firm, partnership or corporation which is not an actual user of the Premises is absolutely prohibited and nothing herein shall require Landlord to consent to any such subleasing or assignment.

If any mechanics' or other lien shall be filed against the Premises or the Building for labor or material furnished or to be furnished at the request of the Tenant, then Tenant

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shall at its expense cause such lien to be discharged of record by payment, bond or otherwise, within thirty (30) days after Tenant receives written notice. If Tenant shall fail to cause such lien to be discharged of record within such thirty (30) day period, Landlord may cause such lien to be discharged by payment, bond or otherwise, without investigation as to the validity thereof or as to any offsets or defenses thereto. The cost to Landlord for removal of such lien will be charged to Tenant as additional rent and payable on the first day of the month next following the payment by Landlord. Tenant shall indemnify and hold Landlord harmless against any and all claims, costs, damages, liabilities and expenses (including reasonable attorney fees) which may be brought or imposed against or incurred by Landlord by reason of any such lien or its discharge.

21. INDEMNIFICATION AND LIABILITY INSURANCE

(a) Tenant shall indemnify hold Landlord harmless against and from liability and claims of any kind for liabilities, losses, damages, suits, actions, fines, penalties, claims or demands of any kind and asserted by or on behalf of any person, entity, independent contractor or governmental authority, arising out of or in any way connected with, (i) Tenant's use and occupancy of the Premises or any work, activity or other things allowed or suffered by Tenant to be done in, on or about the Premises; (ii) any breach or default by Tenant of any of Tenant's

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obligations under this Lease; (iii) any negligent or otherwise tortious act or omission of Tenant, its agents, employees, invitees or contractors; or (iv) any failure by Tenant to comply with any statutes, ordinances, regulations, guidelines, or orders of any governmental authority. Tenant shall, at Tenant's expense, defend Landlord in any action or proceeding arising from any such claim and shall indemnify Landlord against all costs, attorney fees,

(b) During the term of this Lease or any renewal thereof, Tenant shall obtain and maintain and promptly pay all premiums for comprehensive general liability insurance with respect to the demised Premises, the Buildings and land on which it is situated, covering at least the hazards of "premises operations" and "independent contractors" in the amount of not less than \$1,000,000.00 with respect to injuries to or death of any one person and in the amount of not less than \$1,000,000.00 with respect to injuries to or death of more than one person in any one occurrence and in the amount of not less than \$100,000.00 per occurrence with respect to damaged property, such coverage to also include a contractual liability endorsement with such insurance company or companies as shall be satisfactory to Landlord from time to time, and all such policies and renewals thereof shall name the Landlord as an additional insured. On or before the commencement date of the term of this Lease, and thereafter not less than fifteen (15) days prior to the expiration dates of said policy or policies, Tenant

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shall provide copies of policies or certificates of insurance evidencing coverage required by this Lease.

(c) All Tenant's policies of insurance shall provide (i) that no material change or cancellation of said policies shall be made without thirty (30) days prior written notice to Landlord and (ii), (iii) that the insurance company issuing the same shall have no right of subrogation against the Landlord, and (iv) that as to the interest of Landlord, the insurance afforded by the policy shall not be invalidated by any breach or violation by Tenant of any of the warranties, declarations or conditions in the policy.

(d) Landlord shall insure the Building of which the demised Premises are a part and Tenant shall insure the fixtures, equipment, machinery, tenant improvement and betterments and contents against loss or damage by fire and such other risks as may be included in the broadest form of extended coverage insurance including sprinkler leakage and rent insurance where applicable from time to time available. Tenant shall not engage in any activity or store any product or material in the demised Premises which will either cause an increase in the insurance on the entire Building or which will make the Building uninsurable.

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22. WAIVER OF SUBROGATION

Tenant and Landlord, respectively, hereby release each other from any and all liability or responsibility to the other for anyone claiming by, through or under it or them by way of subrogation or otherwise for any loss or damage to property covered by any insurance then in force, even if such loss or damage shall have been caused by the fault or negligence of the other party or anyone for whom such party may be responsible; provided, however, that this release shall be applicable and in force and effect only with respect to any loss or damage occurring during such time as the policy or policies of insurance covering said loss shall contain a clause or endorsement to the effect that this release shall not adversely affect or impair such insurance or prejudice the right of the insured to recover thereunder.

23. WAIVER OF CLAIMS

Except as otherwise in this Lease provided, Landlord and Landlord's agents, servants and employees shall not be liable for, and Tenant hereby releases and relieves Landlord, its agents, servants, employees from, all liability in connection with any and all loss of life, personal injury, damage to or loss of property, or loss or interruption of business occurring to Tenant, its agents, servants, employees, invitees, licensees, visitors, or any other person, firm, corporation or entity, in or about or arising out of the Premises, from, without limitation, (a) any fire, other casualty, accident, occurrence or condition

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in or upon the Premises or the Building; (b) any defect in or failure of (i) plumbing, sprinkling, electrical, heating or air conditioning systems or equipment, telecommunication conduit, lines and equipment or any other systems and equipment of the Premises and the Building, and (ii) the elevators, stairways, railings or walkways of the Building; (c) any steam, gas, oil, water, rain or snow that may leak into, issue or flow from any part of the Premises or the Building from the drains, pipes, roof, or plumbing, sewer or other installation of same, or from any other place or quarter; (d) the breaking or disrepair of any installations and equipment;

(e) the falling of any fixture or any wall or ceiling materials; (f) damaged or broken interior or exterior glass; (g) latent or patent defects; (h) the exercise of any rights by Landlord under the terms and conditions of this Lease; (i) any acts or omissions of the other tenants or occupants of the Building or of nearby buildings; (j) any acts or omissions of other persons; (k) any acts or omissions of Landlord, its agents, servants and employees, except those involving gross negligence; and (l) theft, acts of God, public enemy, injunction, riot, strike, insurrection, war, court order or any order of any governmental authorities having jurisdiction over the Premises.

24. FIRE OR OTHER CASUALTY

(a) If the Premises are damaged by fire or other casualty, the damages shall be repaired by and at the

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expense of Landlord and the rent until such repairs shall be made shall be apportioned from the date of such fire or other casualty according to the part of the Premises which is usable by Tenant. Landlord agrees to repair such damage within a reasonable period of time after receipt from Tenant of written notice of such damage, except that Tenant may agree to repair and replace its own furniture, furnishings, equipment and any alteration or improvement installed by Tenant. Landlord shall not be liable for any inconvenience or annoyance to Tenant or injury to the business of Tenant resulting from such damage or the repair thereof.

(b) If the Premises, in the opinion of Landlord's licensed architect or engineer, are (i) rendered substantially untenable by reason of such fire or other casualty, or (ii) twenty percent (20%) or more of the Premises is damaged by said fire or other casualty and less than six (6) months would remain on the Lease term or any renewal thereof upon completion of the repairs or reconstruction, or (iii) fifty percent (50%) or more of the Premises is damaged by said fire or other casualty, then Landlord shall have the right to be exercised by notice in writing delivered to the Tenant within thirty (30) days from and after said occurrence, to elect to terminate this Lease, and, in such event, this Lease and the tenancy hereby created shall cease as of the date of said occurrence, the rent to be adjusted as of said date.

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(c) If the Building, in the sole opinion of Landlord, shall be substantially damaged by fire or other casualty, regardless of whether or not the Premises were damaged by such occurrence, Landlord shall have the right, to be exercised by notice in writing delivered to the Tenant within thirty (30) days from and after said occurrence, to terminate this Lease; and in such event, this Lease and the tenancy hereby created shall cease as of the date of said termination unless terminated as of the date of said occurrence in accordance with Paragraph 24(b) hereof, the rent to be adjusted as of the date of such termination.

25. SUBORDINATION AND NON-DISTURBANCE

This Lease is subject and subordinate to any mortgage now or hereafter affecting or covering the Premises. Notwithstanding the aforesaid subordination, in the event of the foreclosure of any such mortgage, (a) this Lease shall not terminate, and (b) the peaceful possession of Tenant shall not be disturbed, provided that Tenant is not in default under any of the terms and conditions of this Lease. Tenant agrees to attorn to and to recognize the mortgagee or the purchaser at foreclosure sale as Tenant's

landlord for the balance of the term of this Lease. Tenant hereby agrees, however, that such mortgage or the purchaser at foreclosure sale shall not be (i) liable for any act or omission of Landlord and (ii) subject to any offsets or defenses which Tenant might have against Landlord; (iii) bound by any amendment or modification of this Lease made

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without its consent. The aforesaid subordination, non-disturbance and attornment provisions shall be self-operative; however, Tenant agrees to promptly execute any other agreement submitted by Landlord in confirmation or acknowledgement of same. Tenant hereby authorizes and empowers Landlord as its attorney-in-fact to execute an instrument in confirmation or acknowledgement of the provisions of this paragraph in the event that Tenant fails to execute any document within ten (10) days of its presentation.

26. CONDEMNATION

(a) If the whole of the Premises shall be condemned or taken either permanently or temporarily for any public or quasi-public use of purpose, under any statute or by right of eminent domain, or by private purchase in lieu thereof, then in that event the term of this Lease shall cease and terminate from the date when possession is taken thereunder pursuant to such proceeding or purchase. The rent shall be adjusted as of the time of such termination and any rent paid for a period thereafter shall be refunded. In the event more than fifteen percent (15%) of the Building containing same shall be so taken (or if more than fifty percent (50%) of the parking areas are taken and not promptly replaced with contiguous parking areas) then Landlord may elect to terminate this Lease from the date when possession is taken thereunder pursuant to such proceeding or purchase or, upon mutual agreement of the

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parties, Landlord shall repair and restore, at its own expense, the portion not taken and thereafter the rent shall be reduced proportionately to the portion of the Premises taken.

(b) In the event of any total or partial taking of the Premises or the Building, Landlord shall be entitled to receive the entire award in such proceeding of the Building and land and Tenant shall make a separate application for Tenant's fixtures, equipment and moving expenses under the then applicable New Jersey eminent domain code.

(c) If the Premises or the Building are declared unsafe by any duly constituted authority having the power to make such determination, or are the subject of a violation notice or notice requiring repair or reconstruction which cannot be repaired by Landlord at its sole cost and expense within thirty (30) days, then Landlord at its option, may terminate this Lease, unless Tenant chooses to make such repair at its own cost, and in such event, Tenant shall immediately surrender said Premises to Landlord and thereupon this Lease shall terminate and the rent shall be apportioned as of the date of such termination.

27. ESTOPPEL CERTIFICATE

Tenant shall, at any time and from time to time, within ten (10) days after written request by Landlord, execute, acknowledge and deliver to Landlord, or its mortgagee or trustee, a statement in writing duly executed by Tenant (i) certifying that this Lease is in full force and effect (if

that be the case) without modification or amendment (or, if there have been any modifications or amendments, that this Lease is in full force and effect as modified and amended and setting forth the modifications or amendments), (ii) certifying the dates to which annual basic rental and Additional Rent have been paid, and (iii) either certifying that to the knowledge of the Tenant no default exists under this Lease or specifying each such default; it being the intention and agreement of Landlord and Tenant that any such statement by Tenant may be relied upon by a prospective purchaser or a prospective or current mortgagee of the Building, or by others, in any matter affecting the Premises.

28. DEFAULT

The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) Failure of Tenant to accept possession of the Premises within thirty (30) days after the date of issuance of a certificate of occupancy;

(b) The vacation or abandonment of the Premises by Tenant, which shall be defined as Tenant's non-use of the premises for a contiguous period of greater than fourteen (14) calendar days;

(c) A failure by Tenant to pay, when due or no later than the tenth (10th) day of the month, any installment of rent hereunder or any Additional Rent or any such other sum herein required to be paid by Tenant where such failure

continues for thirty (30) days after written notice thereof from Landlord to Tenant. No default shall exist until ten (10) days after Landlord has sent to Tenant a written notice that the rent has not been received except that Landlord shall not be required to send Tenant notice of nonreceipt of rental more than three (3) times during any twelve (12) consecutive months;

(d) A failure by Tenant to observe and perform any other provisions or covenants of this Lease to be observed or performed by Tenant, where such failure continues for thirty (30) days after written notice thereof from Landlord to Tenant provided, however, that if the nature of the default is such that the same cannot reasonably be cured within such thirty (30) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion;

(e) The filing of a petition by or against Tenant for adjudication as a bankrupt or insolvent or for its reorganization or for the appointment pursuant to any local, state or federal bankruptcy or insolvency laws of a receiver or trustee of Tenant's property; or an assignment by Tenant for the benefit of creditors; or the taking of possession of the property of Tenant by any local, state or federal governmental officer or agency or court appointed official for the dissolution or liquidation of Tenant or for the operating, either temporary or permanent, of Tenant's

business; provided, however, that if any such action is commenced against Tenant the same shall not constitute a default if Tenant causes the same to

be dismissed within sixty (60) days after the filing of same.

29. REMEDIES

Upon the occurrence of any such default set forth above:

(a) Landlord may (but shall not be required to) perform for the account of Tenant any such default of Tenant and immediately recover as Additional Rent any expenditure made and the amount of any obligations incurred in connection therewith, plus interest at the rate of two percent (2%) per annum over the Midlantic National Bank prime rate from the date of such expenditure;

(b) Landlord may accelerate all rent and additional rent due for the balance of the term of this Lease and declare the same to be immediately due and payable; in the case of bankruptcy, insolvent by law or reorganization, Tenant agrees to vacate premises and accelerate rent for a period of two (2) months. This Lease and the unexpired term hereof shall cease and expire.

(c) In determining the amount of any future payments due Landlord due to increase as an operating cost and/or for costs of living increases, Landlord may make such determinations based upon the amount of increases in operating costs and costs of living increase for the full year immediately prior to such default;

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(d) Landlord, at its option, may serve notice upon Tenant that this Lease and the then unexpired term hereof and all renewal options shall cease and expire and become absolutely void on the date specified in such notice, to be not less than five (5) days after the date of such notice without any right on the part of the Tenant to save the forfeiture of payment of any sum due or by the performance of any terms, provision, covenant, agreement or condition broken; and, thereupon and at the expiration of the time limit in such notice, this Lease and the term hereof granted, as well as the right, title and interest of the Tenant hereunder, shall wholly cease and expire and become void in the same manner and with the same force and effect (except as to Tenant's liability) as if the date fixed in such notice were the date herein granted for expiration of the term of this Lease. Thereupon, Tenant shall immediately quit and surrender to Landlord the Premises, and Landlord may enter into and repossess the Premises by summary proceedings, detainer, ejectment or otherwise and remove all occupants thereof and, at Landlord's option, any property thereon without being liable to indictment, prosecution or damages therefor. No such expiration or termination of this Lease shall relieve Tenant of its liability and obligations under this Lease, whether or not the Premises shall be relet;

(e) Landlord may, at any time after the occurrence of any event of default, re-enter and repossesses the Premises

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and any part thereof and attempt in its own name, as agent for Tenant if this Lease not be terminated or in its own behalf if this Lease be terminated, to relet all or any part of such Premises for and upon such terms and to such persons, firms or corporations and for such period or periods as Landlord, in its sole discretion, shall determine, including the term beyond the termination of this Lease; and Landlord shall not be required to accept any tenant offered by Tenant or observe any instruction given by Tenant about such reletting or do any act or exercise any care or

diligence with respect to such reletting or to the mitigation of damages. For the purpose of such reletting, Landlord may decorate or make repairs, changes, alterations or additions in or to the Premises to the extent deemed by Landlord desirable or convenient; and the cost of such decoration, repairs, changes, alterations or additions shall be charged to and be payable by Tenant as Additional Rent hereunder, as well as any reasonable brokerage and legal fees expended by Landlord; and any sums collected by Landlord from any new tenant obtained on account of the Tenant shall be credited against the balance of the rent due hereunder as aforesaid. Tenant shall pay to Landlord monthly, on the days when the rent would have been payable under this Lease, the amount due hereunder less the amount obtained by Landlord from such new tenant;

(f) Landlord shall have the right of injunction, in the event of a breach by Tenant of any of the agreements,

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conditions, covenants or terms hereof, including the actual vacation of the Premises at the end of the term, to restrain the same and the right to invoke any remedy allowed by law or in equity, whether or not other remedies, indemnity or reimbursements are herein provided. Landlord shall have the right of distraint upon Tenant's goods pursuant to N.J.S.A. 2A:33-1 et seq. upon adequate notice consistent with due process. The right and remedies given to Landlord in this Lease are distinct, separate and cumulative remedies; and no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any of the others.

(g) In the event Tenant fails to vacate the premises upon the expiration of this or any extended term hereunder or upon termination of this Lease, Tenant shall pay to the Landlord one hundred fifty percent (150%) the monthly rental payment for the month in which this Lease expired or terminated and for each succeeding month as liquidated damages.

This lease may only be extended beyond the expiration date by the parties executing a new lease on Landlord's then current lease form or by an extension agreement signed by both parties making specific reference to this Lease. No proposals, offers, correspondence or the like shall be legally binding upon Landlord until and unless the terms are incorporated in either a new lease or a formal amendment to this Lease as provided in paragraph 40.

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(h) In addition to all remedies provided herein or by law, Tenant shall pay to Landlord reasonable attorneys fees and court costs incurred as a result of such breach.

30. REQUIREMENT OF STRICT PERFORMANCE

The failure or delay on the part of either party to enforce or exercise at any time any of the provisions, rights or remedies in the Lease shall in no way be construed to be a waiver thereof, nor in any way to affect the validity of this Lease or any part hereof, or the right of the party to thereafter enforce each and every such provision, right or remedy. No waiver of any breach of this Lease shall be held to be a waiver of any other of subsequent breach. The receipt by Landlord of rent at a time when the rent is in default under this Lease shall not be construed as a waiver of such default. The receipt by Landlord of a lesser amount than the rent due shall not be construed to be other than a payment on account of the rent then due, nor shall any statement on Tenant's check or any letter accompanying Tenant's check be deemed an accord and satisfaction, and

Landlord may accept such payment without prejudice to Landlord's right to recover the balance of the rent due or to pursue any other remedies provided in this Lease. No act or thing done by Landlord or Landlord's agents or employees during the term of this Lease shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept such a surrender shall be valid unless in writing and signed by Landlord.

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31. RELOCATION OF TENANT - DELETED

32. LANDLORD'S OBLIGATIONS

Landlord's obligations hereunder shall be binding upon Landlord only for the period of time that Landlord is in ownership of the Building; and, upon termination of that ownership, Tenant, except as to any obligations which have then matured; shall look solely to Landlord's successor in interest in the Building for the satisfaction of each and every obligation of Landlord hereunder.

33. LANDLORD'S LIABILITY

Landlord shall have no liability under any of the terms, conditions or covenants of this Lease and Tenant shall look solely to the equity of the Landlord in the Building of which the Premises form a part for the satisfaction of any claim, remedy or cause of action accruing to Tenant as a result of the breach of any action of this Lease by Landlord.

34. SUCCESSORS

The respective rights and obligations provided in this Lease shall bind and inure to the benefit to the parties hereto, their legal representatives, heirs, successors and assigns; provided, however, that no rights shall inure to the benefit of any successors of Tenant unless Landlord's written consent for the transfer to such successor has first been obtained as provided in paragraph 19 hereof.

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35. GOVERNING LAW

This Lease shall be construed, governed and enforced in accordance with the laws of the state in which the Premises are located.

36. SEVERABILITY

If any provisions of this Lease shall be held to be invalid, void or unenforceable, the remaining provisions hereof shall in no way be affected or impaired and such remaining provisions shall remain in full force and effect.

37. CAPTIONS

Marginal captions, titles or exhibits and riders and the table of contents in this Lease are for convenience and reference only, and are in no way to be construed as defining, limiting or modifying the scope of intent of the various provisions of this Lease.

38. GENDER

As used in this Lease, the word "person" shall mean and include,

where appropriate, an individual, corporation, partnership or other entity; the plural shall be substituted for the singular, and the singular for the plural, where appropriate; and the words of any gender shall mean to include any other gender.

39. WARRANTIES OF TENANT

Tenant warrants to Landlord that Tenant dealt and negotiated solely and only with Landlord for this Lease and with no other broker, firm, company or person, other than JACKSON-CROSS COMPANY. Tenant further warrants that it is a

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corporation it is in good standing organized and existing under the laws of the State of California, that all corporate action necessary to authorize the execution of this Lease has been taken by the Board of Directors and that the Regional Manager, DONALD R. CAST, has been authorized to execute and attest respectively this Lease.

Tenant for good and valuable consideration shall indemnify and hold Landlord harmless from and against any and all claims, suits, proceedings, damages, obligations, liabilities, counsel fees, costs, losses, expenses, orders and judgments imposed upon, incurred by or asserted against Landlord by reason of the falsity or error of this aforesaid warranty.

40. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Riders hereto, contains all the agreements, conditions, understandings, representations and warranties made between the parties hereto with respect to the subject matter hereof, and may not be modified orally or in any manner other than by an agreement in writing signed by both parties hereto or their respective successors in interest. Without in any way limiting the generality of the foregoing, this Lease can only be extended pursuant to the due exercise of an option (if any) contained herein and/or otherwise formal agreement signed by both Landlord and Tenant specifically extending the terms. No negotiations, correspondence by Landlord or offers to extend the terms shall be deemed an

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extension of the termination date for any period whatsoever without such formal agreement.

41. WAIVER OF TRIAL BY JURY

Landlord and Tenant each hereby waive the right to a trial by jury in the event any claim is made concerning the construction, interpretation or enforcement of this Lease.

42. CONSENT OF THE PARTIES

Wherever the consent of either party is required, it shall be deemed to be written consent and shall not be unreasonably withheld or delayed.

43. ADDITIONAL SCHEDULES

The following additional schedules are attached hereto and made a part of this Lease:

Exhibit "A" - Plan
Exhibit "B" - Rules and Regulations
Exhibit "C" - Tenant Work Letter
Exhibit "D" - Janitorial Specifications
Exhibit "E" - Renewal Option
Exhibit "F" - Fees
Exhibit "G" - Right of First Offer
Exhibit "H" - Amended Agreement

44. BINDING EFFECT

This Lease shall be effective only when it is signed by both the Landlord and Tenant and a fully executed copy delivered to the Tenant. The Tenant's submission of a signed Lease for review by the Landlord does not give the Tenant any interest, right or option to the Premises.

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45. CESSATION OF EXISTING LEASE

Landlord and Tenant agree that, upon the Commencement Date (as defined and, potentially, amended in Paragraph 7) the existing Lease dated July 13, 1990 (and subsequently amended by various and numerous Lease Amendments) between the Landlord's predecessor and Tenant shall cease, and Tenant shall be entitled to a refund of any prepaid rent, as well as a return of Tenant's deposit monies paid to Landlord's predecessor pursuant to the July 13, 1990 Lease.

IN WITNESS WHEREOF, the parties hereto have duly executed this Lease and have initialed the Exhibits and Riders hereto in seven (7) counterparts the day and year first above written.

TENANT: qad.inc

BY Donald R. Cast

Title Regional Manager

LANDLORD: LAUREL LARCHMONT OFFICE INC.

BY James R. Lanno

Title Vice President

EXHIBIT "A"

[FLOOR PLANS]

(WEST WING-FIRST FLOOR)

(EAST WING-FIRST FLOOR)

10000 MIDLANTIC DRIVE
LAUREL CORPORATE CENTER
MOUNT LAUREL, NEW JERSEY
[Illegible]

EXHIBIT "A"

FIRST FLOOR PLAN (EAST)

EXHIBIT "A"

SECOND FLOOR PLAN (EAST)

EXHIBIT "A"

SECOND FLOOR PLAN (WEST)

EXHIBIT "B"
RULES AND REGULATIONS

1. No part or the whole of the sidewalks, plaza areas, entrances, passages, courts, stairways, corridors or halls of the building or the real property shall be obstructed or encumbered by any tenant or used for any purpose other than ingress and egress to and from the space demised to such Tenant.
2. No awnings or other projections shall be attached to the outside walls or windows of the building. No curtains, blinds, shades, or screens shall be attached to or hung in, or used in connection with, any window or door of the space demised to any tenant other than those specified or supplied by landlord, removal of same at any time will be prohibited.
3. No sign, advertisement, object, notice or other lettering shall be exhibited, inscribed, painted, or affixed on any part of the outside or inside of tenant's premises, so as to be visable from the exterior without prior written consent of landlord.
4. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the building.
5. The water and wash closets and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances (including, without limitation, coffee grounds) shall be thrown therein. All repairs necessitated by damage resulting from any misuse of the plumbing fixtures shall be borne by the

tenant.

6. No tenant, nor any of its agents, employees, visitors, licensees, contractors, or suppliers shall at any time bring or keep upon the leased premises any flammable, combustible or explosive fluid, chemical or substance without landlord's prior approval, and tenant shall obey fire regulations and procedures governing said leased space and building.

7. No tenant shall mark, paper, paint, bore into, make any alterations or additions to, or in any way deface any part, including equipment and fixtures, of the leased space

or the building of which it forms a part, without the prior written consent of landlord. No wires shall be installed except in conduits, ducts or outlets established for that purpose, unless prior written consent of landlord has been obtained. No tenant shall lay carpeting, so that the same shall come in direct contact with the floor of the leased space, and, if tenant desires to install carpeting, an underlayment shall be first laid, without the use of cement or other similar adhesive material. If any tenant desires to install any floor covering other than carpeting, subject to the prior written consent of landlord, such floor covering shall be installed in accordance with the manufacturer's specifications.

8. No cooking shall be done or permitted by any tenant in the leased space, without the prior written consent of landlord, provided, however, that the heating, refrigeration and preparing of beverages and light snacks for employees shall be permitted if there are appropriate facilities and equipment for such purposes. No tenant shall cause to permit any unusual or objectionable odors to be produced upon or emanate from the leased space.

9. Neither the whole nor any part of the space demised to any tenant shall be used for manufacturing, without prior written approval from the landlord, or for the sale at auction of merchandise, goods, or property.

10. No tenant shall make or permit to be made, any unseemly or disturbing noises or disturb or interfere with other tenants or occupants of the building or neighboring buildings or premises.

11. All moving of safes, freight, furniture or bulky matter of any description to and from the leased space, shall only take place within the confines of specified passageways or stairs, and during the hours designated by landlord. There shall not be used in any space, or in the public walkways of the building, either by the tenant or by jobbers or others, in the delivery or receipt of merchandise, and hand trucks, except those equipped with rubber tires.

12. No tenant shall use or occupy or permit any portion of the space demised to such tenant to be used or occupied as an employment bureau or for the storage, manufacture or sale of liquor, narcotics or illegal drugs.

13. Landlord shall have the right to prohibit any advertising by any tenant which in landlord's opinion, tends to impair the reputation of the building, and upon notice from landlord, such tenant shall refrain from or discontinue such advertising.

14. No space demised to any tenant shall be used, or permitted to be used, for lodging or sleeping or for any immoral or illegal purposes.

15. The requirements of tenants will be attended to only upon application at the office of landlord. Building employees shall not be required to perform, and shall not be requested by any tenant to perform, any work outside of their regular duties, unless under specific instructions from the office of landlord or the building management.

16. Canvassing, soliciting, and peddling in the buildings are prohibited, and each tenant shall cooperate to prevent the same.
17. No animals of any kind shall be brought into or kept about the building by any tenant.
18. No tenant shall install or permit or allow installation of a television, radio, or two-way radio antenna, or any other similar antenna, on the roof, in the windows or upon the exterior of the leased space of the building, without the prior written consent of landlord.
19. No tenant shall tie in, or permit other to tie into the water supply on the premises without prior written consent of the building management.
20. No tenant shall remove, alter or replace the building standard ceiling light diffusers in any portion of the leased space without the prior written consent of landlord.
21. Except for purposes of emergency, notices, posters, or advertising media will not be permitted to be affixed on the exterior of the building.
22. Business machines and mechanical equipment belonging to tenant which cause noise or vibration that may be transmitted to the structure of the building or to any space therein to such a degree to be objectionable to landlord or

to any tenant in the building shall be installed and maintained by tenant, at tenant's expense, on vibration eliminators or other devices sufficient to eliminate such noise and vibration.

23. Tenant shall immediately notify the building management of any serious breakage, or fire or disorder, which comes to its attention in its premises or any of the common areas of the building.
24. Tenant shall apply, at tenant's costs, such reasonable pest extermination measures as tenant deems reasonably necessary.
25. Tenant shall not burn any trash or garbage of any kind in or about the demised premises.
26. Tenant shall not permit the use or placement of door mats or the like on the exterior of any entrance door to the demised premises.
27. For purposes of these Rules and Regulations, the "building management" shall mean the duly designated representative of landlord to manage the building.
28. Landlord reserves the right to recind, amend, alter or waive any of the foregoing Rules and Regulations at any time when, in its judgement, it deems it necessary, desirable or proper for its best interest and for the best interest of the tenants, and no such recission, amendment, alteration or waiver of any rule or regulation in favor of one tenant shall operate as an alteration or waiver in favor of any other tenant. Landlord shall not be responsible to any tenant for the non-observance or violation by any other tenant of any of these Rules and Regulations at any time.

ACCEPTED BY: /s/

ACCEPTED BY: /s/ James R. Lanno

Tenant acknowledges and agrees that the entire cost and expense of tenant improvement work to be performed for the leased premises is to be at the Tenant's sole cost and expense, except that the Landlord will contribute to such expense the amount of \$25 per square foot of the leased premises.

Lessor shall be responsible for preparing all necessary construction drawings based on the floor plans submitted by the Lessee. Lessee shall have fourteen (14) days in which to review and approve final construction drawings prepared by lessor.

The lessor shall be responsible for having work shown on the final construction plans completed in good and workmanlike manner as expeditiously as possible and shall give Lessee an allowance against the cost to construct said improvements shown on the final construction plans of up to \$25.00 per rentable square foot for Lessee improvements. In the event the cost to construct said Lessee improvements exceeds \$25.00 per rentable square foot, Lessee shall be responsible for the payment of all costs in excess of said \$25.00 per rentable square foot allowance within fifteen (15) days of submission of an invoice from Lessor.

In the event, the cost to construct Lessee improvements is less than \$25.00 per rentable square foot, Lessor shall apply the remaining value of the construction allowance as a credit against Base Rent due from Lessee. Such credit shall be applied in twelve (12) equal monthly installments beginning as of the Commencement Date.

The plans and specifications for these improvements shall be mutually agreed to by both Landlord and Tenant. Landlord will not unreasonably withhold its' approval.

Landlord is responsible to provide renovations which are required by the Americans with Disabilities Act which are not part of the above improvements, at no additional cost to Tenant.

Tenant requires the Landlord employ the design and construction services of Whitesell Services, Inc. for the purpose of continuity and expediency since time is of the essence.

If the cost of such service, in the reasonable opinion of Tenant, is not in keeping with industry standards in the region, then Tenant shall have the right to contract directly for the services. If Tenant chooses to contract directly for the services, then Tenant shall have no claim to penalties or termination defined in Paragraph 13(d) unless such delay is caused directly by Landlord.

EXHIBIT "D"
JANITORIAL SPECIFICATIONS

A. NIGHTLY -- (Monday through Friday)

1. OFFICES AND COMMON AREAS

- a. Empty waste receptacles and replace liner as needed.
- b. Boxes of trash will also be removed if clearly labeled "trash".
- c. Empty and wipe all ash trays.
- d. Vacuum all carpeted areas.
- e. Dust mop all tiled floors, baseboards and damp mop any spillages.
- f. Dust and/or damp wipe clean the following:
Desks (if cleared), chairs, file cabinets, tables, lamps, pictures and frames, window sills, doors, push and switch plates and telephones.
- g. Wash clean all water coolers and/or fountains.
- h. Clean all glazed entrance and elevator doors.
- i. Spot clean carpeting.

j. Sweep stair towers.

2. BATHROOMS

- a. Empty and clean waste receptacles (replace liner if applicable) and wash dispensers.
- b. Sweep and wet mop all floors using disinfectant.
- c. Spot clean all tiled walls and partitions.
- d. Scour, wash and disinfect all basins, bowls and urinals.
- e. Wash and polish all mirrors, shelves and bright work including plumbing fixtures.
- f. Refill all paper products and soap dispensers.

B. WEEKLY

1. OFFICES AND COMMON AREAS.

- a. Render high dusting of all pictures, frames, doors, partitions pipes, louvers, etc.

2. BATHROOMS.

- a. Spray buff tiled floors.

C. MONTHLY

1. OFFICES AND COMMON AREAS.

- a. Clean all interior partition glass, diffusers and grills.

2. BATHROOMS.

- a. Machine wash and refinish floors.

D. EVERY THREE MONTHS

1. OFFICES AND COMMON AREAS.

- a. Strip and refinish all tiled flooring as appropriate.

2. STAIR TOWERS.

- a. Damp mop all floors.

E. EVERY SIX MONTHS

1. WINDOWS.

- a. Wash clean all interior and exterior windows.

F. ANNUALLY

1. COMMON AREAS AND TENANT SPACES.

- a. Carpet cleaning.

Revised: 11/12/93

EXHIBIT "E"
RENEWAL OPTION

(A) So long as Tenant is not in default under this Lease, Landlord grants to Tenant the option to extend the term of this Lease from the date of termination of the initial term for an additional term of five (5) years (the "First Renewal Term") upon all of the terms, conditions and provisions set forth in this Lease, except that the yearly Minimum Rent payable under Section 8(A) of this Lease for each Lease Year (hereinafter defined) of the Renewal Term shall be as set forth below in this Exhibit "E". To exercise the option to renew, Tenant shall give Landlord written notice of such exercise not less than one hundred eighty (180) days prior to the expiration of the initial term.

(B) The Minimum Rent payable under Section 8(A) of this Lease for the Lease

Year of the Renewal Term shall be calculated on a fixed rental rate of \$14.00 per square foot, \$801,794.00 per year, \$66,816.17 per month.

(i) The term "Lease Year" as used in this Exhibit "E" shall mean the twelve (12) calendar months commencing with the first day of the first full calendar month of the initial term or the Renewal Term of this Lease, as applicable and the succeeding twelve (12) calendar month periods.

Upon execution of the Renewal Option, Landlord shall provide Tenant within a reasonable time, and at no additional cost to the Tenant, refurbishment of the Premises including repainting all painted surfaces and new carpet installation in a quality equivalent to the initial carpet.

LANDLORD:

BY /s/ James P. Lanno

TENANT:

BY /s/

James P. Lanno

EXHIBIT "F"

FEES

In the event of suit or other proceeding between the partners hereto with respect to this Lease, the prevailing party shall, in addition to other such relief as the Court may award, be entitled to recover reasonable attorney's fees, expenses and costs of investigations.

EXHIBIT "G"

RIGHT OF FIRST OFFER

Provided that Tenant is not then in default hereunder, Landlord shall offer in writing to lease to Tenant any space in the building as to which Landlord has made a bona fide offer to lease to any other prospective tenant (hereafter, a "Qualified Offer"). Said right of first offer shall be subject to all rights of first offer previously granted other tenants in the building and the following conditions:

- a) At the time Landlord makes any Qualified Offer, Landlord shall give Tenant written notice specifying (i) the identity of the proposed tenant; (ii) the square footage proposed to be leased and it's location within the Building and (iii) the proposed commencement date.
- b) If Tenant intends to exercise it's right of first offer as to the space described in Landlord's notice, Tenant shall give Landlord written notice of such intent. Such notice must be received by Landlord not later than 5:00 p.m. prevailing Eastern Time on the fourteenth (14th) day following Tenant's receipt of Landlord's notice described in (a) above.
- c) If Tenant fails to give timely notice in accordance with subparagraph (b) above, Landlord may lease such space to the party and on the terms specified in it's notice to Tenant, however, in the event a lease is not consummated with the party identified in Landlord's notice, Tenant's right of first offer shall again apply to the pertinent space and Landlord shall notify Tenant of any subsequent offer from or to any other party to lease same.
- d) If Tenant properly exercises it's right of first offer granted hereby, that portion of space herein described, will be leased, as of the commencement date specified in Landlord's notice, on the terms and

conditions applicable to the Premises, including the same basic rent per rentable square foot except as follows:

- (i) In the event the cost (per rentable square foot) to Landlord of constructing leasehold improvements comparable to those described in the Building Standard Tenant Work Letter attached hereto as Exhibit "C" is either higher or lower than the cost of such improvements to the Premises, the basic rent set forth in Paragraph 8(a) will be increased or decreased, as appropriate, by an amount equivalent to such cost differential.

The amount of said cost differential, if any, will be determined by comparing the total work letter cost computed in accordance with the most recent "Dodge Report" available as of (1) the date of this lease and (2) the date of Tenant's notice of it's intent to exercise the foregoing option. The cost set forth in each such "Dodge Report" shall be conclusive as to any individual work letter item.

- (ii) Tenant's pro rata share of operating expenses under Paragraph 8(b) of the Lease shall be amended.
- (iii) The description of (and Exhibits depicting) the "Premises" in Paragraph 5 of the Lease shall be amended.

jp:11/17/93

EXHIBIT "H"
AMENDED AGREEMENT

EARLY TERMINATION OF LEASE

Notwithstanding anything to the contrary contained in this Lease, Lessee, at its option, may cancel and terminate this Lease effective as of the end of the sixtieth (60th) month of the term, provided, as conditions of such termination and cancellations: (a) Lessee gives written notice to the Lessor at least one hundred and fifty (150) days prior to the commencement of the sixtieth (60th) month in the term of its intent to terminate the Lease, (b) Lessee pays to Lessor an amount equal to \$12.00 per rentable square foot to cover the unamortized portion of those costs and expenses incurred by Lessor in connection with this Lease, and (c) Lessee continues to perform all the terms and conditions of the Lease until the date of its cancellation and termination.

SECOND AMENDMENT TO
MULTI-TENANT OFFICE LEASE

THIS SECOND AMENDMENT TO MULTI-TENANT OFFICE LEASE (this "Amendment"), made this ____ day of _____, 1995, is made by and between EDB Property Partners L.P. III, a Delaware limited partnership ("Landlord"), and gad.inc, a California corporation ("Tenant").

R1. WHEREAS, Laurel Larchmont Office, Inc. ("LLO") and Tenant are parties to an undated multi-tenant office lease (the "Lease") for approximately 57,271 square feet (the "Premises") located in suites 103, 105 and 200 East and 200 West of the building located at 10,000 Midlantic Drive (the "Building"), Mount Laurel, New Jersey; and

R2. WHEREAS, Landlord is the successor-in-interest to all of LLO's right, title, interest and obligations in and to the Lease: and

R3. WHEREAS, the Lease has been amended by an unnumbered Amendment to Multi-Tenant Office Lease dated April 26, 1994 (which contains a Rider); and

R4. WHEREAS, Tenant desires, and Landlord is willing, to expand the Premises and lease additional space of approximately 3,912 square feet shown on Exhibit A and A1 and located on the first (1st) floor east wing of the Building (the "Additional Space"); upon the terms of this agreement and

R5. WHEREAS, the parties hereto mutually desire, effective as of the date of execution of this Amendment, to amend the Lease on such terms and conditions as are more fully set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. This Amendment is hereby expressly conditioned upon execution of, and shall not be effective until the date (the "Effective date"), if any, upon which the Sublease attached hereto as Exhibit B, by and among Landlord, Tenant and Origin Technology and Business, Inc., is fully executed and delivered by all parties. Landlord hereby grants Landlord's consent to the entering into of such Sublease by Tenant and approves of the terms and conditions thereof. Landlord hereby waives all right to receive any profit in connection with this subletting which would otherwise be allowed pursuant to Paragraph 19 of the Lease. Landlord further acknowledges and agrees that Tenant shall not have any obligation to comply with ECRA (now ISRA) as a result of the Sublease, as would otherwise be required under Paragraphs (e) through (g) of Article 19. In addition, Landlord hereby consents to the construction of the alterations and improvements in the additional Space by Tenant all as set forth on Exhibit C.

2. Effective as of the Effective Date, the Lease, as amended, shall be, and hereby is, further amended as follows:

A. Section 5 (Premises) of the Lease shall be, and the same hereby is, amended by adding "Suite ____ East (the "Additional Space") 3,912 square feet as the tenth (10th) written line of the section and adjusting all subsequent lines down one (1) line and by deleting the words "total: 57,271 s.f." in the eleventh (11th) written line and inserting in its place "Total: 61,183 s.f.". the intent of this provision is to add the Additional Space to the definition of "Premises" in Lease.

B. EXHIBIT A and A1 of the Lease which depicts the Premises shall be, and the same hereby is, amended by adding the page labeled "EXHIBIT A AND A1 - - ADDITIONAL SPACE" Attached hereto as an additional page thereof.

C. Section 7 (Term) of the Lease shall be, and hereby is, amended

by adding to the end of the first (1st) paragraph the following sentence;

The "Additional Space Commencement Date" shall be June 1, 1995."

D. Section 8 (Rent) of the Lease shall be, and hereby is, amended by adding a new subsection (e) thereto as follows:

"(e) Commencing on the Additional Space Commencement Date and continuing until the expiration or earlier termination of the term hereof, in addition to the rent provided in Section 8(a) hereof, Tenant shall pay rent for the Additional Space as follows:

June 1, 1995 - August 31, 1996	\$12.00 per sq. ft.
September 1, 1996 - August 31, 1999	\$12.50 per sq. ft.
September 1, 1999 - August 31, 2001	\$13.00 per sq. ft.

E. Effective as of the Occupancy Date Section 8 (Rent) subsection (b) of the Lease shall be, and hereby is, amended by deleting the fifth (5th) sentence in its entirety and inserting the following sentence in its place:

"The Tenant's proportionate share is thirty-five percent (35%) (61,183 s.f. DIVIDED BY 175,573 s.f. = 35%)."

F. Section 8 (Rent) subsection (c) of the Lease shall be, and hereby is, amended by deleting the last sentence in its entirety and inserting the following sentence in its place:

"The percentage for the Premises is thirty-five percent (35%)."

G. Section 13 (Condition of Premises) of the Lease shall be, and hereby is, amended by adding a new subsection (g) thereto as follows:

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"(g) Notwithstanding anything to the contrary contained herein, with respect to the Additional Space, the parties agree as follows:

(i) CONDITION OF ADDITIONAL SPACE. Upon occupancy, Tenant shall accept the Additional Space in its existing "AS IS" condition, except for the construction of the demising wall as defined by (g.2.vi) of this Second Amendment, subject to all applicable municipal, county, state and federal laws, statutes, ordinances, including zoning and regulations governing and relating to the use, occupancy and possession of the Additional Space.

(ii) The taking of possession of the Additional Space by Tenant shall conclusively establish that the Additional Space was at such time in satisfactory condition, order and repair, subject only to a punch list which will be prepared prior to the time the Tenant takes possession.

(iii) The Tenant shall quit and surrender the Additional Space at the end of the term in as good condition as received except for reasonable wear and tear in accordance with the Lease damage by fire or casualty, condemnation and/or permitted alterations all excepted. The parties agree and acknowledge that the lease term with respect to the Additional Space shall expire at noon on August 21, 2001 or otherwise be coterminous with the Lease.

(iv) Notwithstanding anything to the contrary contained in this Section 13 or Exhibit C hereto, the cost of the demising wall to be constructed shall be paid fifty percent (50%) by Landlord and fifty percent (50%) by Tenant. This wall shall be completed no later than March 1, 1995 ("Occupancy Date"). In the event occupancy is delayed due to incomplete construction of demising wall, the "Occupancy Date" and the Additional Space Commencement date shall be delayed by the same number of days.

3. The parties acknowledge and agree that Landlord has agreed to provide

to Tenant a Tenant Improvement Allowance ("TI Allowance") of \$22.32 per square foot of Additional Space. Landlord acknowledges and agrees that such sum is earned, due and payable to Tenant as of the date hereof. However, Tenant may, at Tenant's option, choose to have such allowance applied either:

(i) As against Rent payments due from Tenant to Landlord pursuant to this Lease commencing at any time during the term of the Lease; or

(ii) by lump sum payment to Tenant at any time during the term of this Lease for improvement to be constructed by Tenant at the Premises.

(iii) applied against the actual out-of-pocket cost and expense of improvement work at the Premises performed by Landlord, Landlord agreeing upon request of Tenant to perform those alterations to the Premises reasonably requested by Tenant, provided Tenant agrees to reimburse Landlord for the actual out-of-pocket cost and expense of such improvements, as incurred, in excess of the TI Allowance.

4. Except as, and to the extent, expressly modified by this Amendment, the Lease shall continue in full force and effect, unmodified.

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5. The capitalized terms used in this Amendment shall have the same meaning ascribed to them under the Lease, unless specifically designated otherwise.

6. If any provision of this Amendment is held to be invalid or unenforceable, the same shall not affect the validity or enforceability of the other provisions of this Amendment, which shall continue in full force and effect, as if the invalid or unenforceable provision has been deleted.

7. This Amendment contains the entire agreement of the parties hereto and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein, shall be of any force or effect. To the extent the Lease has been modified prior to the execution hereof by an Amendment to Multi-Tenant Office Lease as set forth in paragraph R3, above, the terms of such amendments shall also be deemed modified by the terms of this Amendment. This Amendment and the Lease may be further amended only in writing signed by both Landlord and Tenant. If any provision of this Amendment conflicts with any provision of the Lease (or of any prior amendments), the provision of this Amendment shall be controlling.

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

LANDLORD:

EDB PROPERTY PARTNERS L.P. III,
a Delaware limited partnership

BY:

TITLE:

TENANT:

QAD.INC
a _____ corporation

BY:

TITLE:

EXHIBIT "A"

ADDITIONAL SPACE

First Floor East
10,000 Midlantic Drive
Mt. Laurel, NJ 08054

EXHIBIT "A1"

ADDITIONAL SPACE

First Floor East
10,000 Midlantic Drive
Mt. Laurel, NJ 08054

EXHIBIT B
SUBLEASE
(ATTACHED)

SUBLEASE

THIS SUBLEASE ("SUBLEASE") is entered into as of the 31st day of January, 1995 by and between ORIGIN TECHNOLOGY IN BUSINESS, INC., a Delaware corporation, with its principal place of business at 1105 Schrock Road, Suite 816, Columbus, Ohio 43229 (hereinafter "SUBLESSEE") and QAD, INC., a California corporation, with its principal place of business at 10,000 Midlantic Drive, Suite 200, Mount Laurel, New Jersey 08054 (hereinafter "SUBLESSOR").

THE PARTIES ENTER into this Sublease on the basis of the following facts, intentions and understanding:

WHEREAS, Sublessor desires to sublease the Leased Premises consisting of approximately 3,912 square feet on the first floor of the East Wing of 10,000 Midlantic Drive, Mt. Laurel, NJ 08054, as outlined on Exhibit "A" and "A1" attached hereto (hereinafter "LEASED PREMISES") and Sublessee now desires to sublet the Subleased Premises from Sublessor on the terms, covenants and conditions as hereinafter provided. A copy of said Lease is attached hereto as Exhibit "B."

NOW, THEREFORE, in consideration of the mutual covenants and promises of the parties herein contained, the parties agree as follows:

1. SUBLEASE. Sublessor hereby agrees to lease the subleased Premises to Sublessee and Sublessee agrees to lease the Subleased Premises from Sublessor on the conditions hereinafter set forth.

2. CONDITION OF SUBLEASED PREMISES. Sublessee shall accept the Subleased Premises in their existing "AS IS" condition, subject to all applicable municipal, county, state and federal laws, statutes, ordinances, including zoning and regulations governing and relating to the use, occupancy and possession of the Subleased Premises. Sublessee recognizes and agrees that

Sublessor shall not be required to perform any work or construction on the Subleased Premises in order to prepare the same for Sublessee's occupancy. By entering the Subleased Premises, Sublessee shall be deemed to accept the Subleased Premises in their condition existing as of the date of such entry.

3. SUBLEASE SUBJECT TO LEASE. This Sublease shall be subject to all of the terms, covenants and conditions of the Lease and Sublessee shall assume and perform the obligations of Sublessor as Tenant in the Lease with respect to the Subleased Premises, except for the payment of minimum annual rent contained in the Lease. Sublessee shall not commit or permit to be committed on the Subleased Premises any act or omission which shall violate any terms, covenants or conditions of the Lease applicable to Sublessee. In the event of any inconsistency between the lease and the Sublease, the terms of this Sublease shall control. All of the terms, covenants and

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conditions in the Lease are incorporated herein as terms, covenants and conditions of this Sublease, except for any paragraphs which shall be superseded by this Sublease. To the extent that the Lease provides that Landlord shall provided services, utilities, insurance, maintenance, repairs or any and all other obligations of Landlord rendered in connection with the operation of the Subleased Premises, Sublessee shall seek recourse first from Landlord by notice to Landlord with a copy simultaneously provided to Sublessor. If Landlord shall not take action after request is made by Sublessee after the passing of any applicable cure period specified in the Lease, then Sublessee may notify Sublessor of such failure. Upon receipt of such notice, Sublessor shall use prompt, reasonable efforts to enforce Sublessor's rights under the Lease for the benefit of Sublessee. Sublessor shall have no duty to perform any obligations of the Landlord under the Overlease and shall under no circumstances be responsible for or liable to Sublessee for any default, failure or delay on the part of the Landlord in the performance of any obligations under the Overlease, nor shall such default of the Landlord affect this Sublease or waive or defer the performance of any of Sublessee's obligations hereunder. In addition, Sublessee shall have no right to exercise the Renewal Option, Right of First Offer or Early Termination of Lease rights granted pursuant to Exhibit "E", "G" and "H", respectively, of the Lease.

4. TERM. The term ("TERM") of this Sublease shall commence on June 1, 1995, and shall terminate on the earlier of August 31, 2001 or the date on which the Lease is terminated. Occupancy may occur as of February 1, 1995 in accordance with the Overlease.

5. RENT.

a. MINIMUM ANNUAL RENT.

Sublessee shall pay to Sublessor rental as set forth below: The date of sublease rent schedule is based upon the Overlease anniversary date of September 1.

TERM	PER SQUARE FOOT RATE	MONTHLY RENT	ANNUAL RENT
Months June 1995			
- August 1995	\$12.00 (x 3,912 square feet)	\$3,912.48	\$11,737.44
Year 2: (Sept 1995 to Aug 1996	\$12.00	\$3,912.48	\$46,944.00
Years 3 through 5: Sept 1996 to Aug 1999	\$12.50	\$4,075.00	\$48,900.00

Years 6 and 7: Sept 1999 to Aug 2001	\$13.00	\$4,238.00	\$50,856.00
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payable on the first business day of each month during the term of this Lease except that the first month's rent shall be payable upon the execution of this Lease.

b. In addition to the minimum annual rental, Sublessee shall pay to Sublessor its proportionate share of all operating costs incurred during each calendar year (prorated where appropriate) during the term of this Lease.

This operating cost shall be estimated by Sublessor at the commencement of occupancy and Sublessee shall pay to Sublessor in addition to the basic rent and on the same day provided in paragraph 8(a) 1/12 thereof. The estimated operating cost for the year in which this Lease commences is \$7.00 per rentable square foot. The operating expenses shall include all costs normally incurred in the maintenance and operation of an office building, less any charges invoiced directly to other tenants in the building and shall include:

i. Real estate taxes assessed on the building, land underlying same, parking areas or other common elements including any assessments or municipal improvements;

ii. All costs and expense directly related to the operation of the building including preparing units for rental, lighting, cleaning, insuring, removing snow, ice and debris, policing and regulating traffic in the area immediately adjacent to the building and depreciation of machinery and equipment used for such operation;

iii. All costs and expense, other than those of a capital nature, or replacing paving, curbs, walkways, landscaping (including replanting and replacing flowers and other planting), drainage and lighting facilities in the building and areas immediately adjacent thereto;

iv. Electricity and fuel used in lighting, heating, ventilating, and air conditioning of the Premises;

v. Maintenance and mechanical and electrical equipment including heating, ventilating and air conditioning equipment in the Premises;

vi. Window cleaning and janitorial service, including janitorial equipment and supplies;

vii. Maintenance of elevators, rest rooms, lobbies, hallways and other common areas of the building;

viii. Wages for personnel directly involved in the building management and operating, including all taxes payable by Sublessor thereon and fringe benefits;

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ix. Water and sewer rents, charges and standby fees;

x. Accounting fees, management fees and legal fees which directly benefit the overall operation of the building, it is expressly agreed

that legal fees incurred in an action against an individual tenant shall not be deemed includable as an operating expense pursuant to this provision; and

xi. All costs associated with maintaining, operating and monitoring any security system or sprinkler system.

c. In determining operating expenses, if less than 95% of the rentable area of the building has been occupied by tenants for more than thirty (30) days during such year, operating expenses shall be deemed for such year to be an amount equal to the like expenses which would normally be expected to be incurred had such occupancy of the building been 95% throughout such year, as reasonably determined by Landlord.

d. Rent shall be paid to the Sublessor at 10000 Midlantic Drive, Mount Laurel, New Jersey 08054, or at such other place or places as Sublessor may from time to time direct.

e. Sublessee shall not request Landlord to provide services, materials or supplies in excess of the basic services, which Landlord is obligated to provide under the Lease without first obtaining the written consent of Sublessor, which consent shall not be unreasonably withheld. Upon notification to Sublessor by Sublessee of termination of any services, or impairment of any services, Sublessor shall immediately notify Landlord in accordance with the notice provision of the Lease.

f. Sublessee shall pay to Sublessor as additional rent, within ten (10) days after demand therefore by Sublessor, any and all other additional rent payments and sums due pursuant to the lease.

6. LATE PAYMENT. Rent is due and payable on or before the first day of each month. Rent received after the tenth (10th) of the month is subject to a late charge of ten (10%) percent of the monthly payment which charge must accompany rent. An additional charge will be made for checks returned for insufficient funds.

7. INSURANCE.

a. Sublessee shall carry and maintain during the entire term of the Sublease the insurance required pursuant to the Lease. In addition, Sublessee shall name Sublessor as an additional insured with respect to said insurance.

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b. Sublessee shall, prior to the commencement of the term, and during the term, thirty (30) days prior to the expiration of the policy of insurance, furnish to Sublessor and Landlord certificates evidencing such coverage, which certificates shall state that such insurance coverage may not be changed or canceled without at least ten (10) days' prior written notice to Sublessor and Landlord.

8. DEFAULT. In the event Sublessee shall breach any of the terms, covenants or conditions of this Sublease or the Lease, then, in that event, in addition to the remedies Landlord may have against Tenant for Tenant default in the Lease, Sublessor shall have the right to enter and retake the Subleased Premises and terminate Sublessee's interest under this Sublease. If Sublessee defaults under the Lease, Sublessee shall indemnify, defend by counsel acceptable to Sublessor and hold Sublessor harmless from and against all damages resulting from such default. If Sublessee defaults under Sublessee's obligations under this Sublease and Sublessor fulfills any of Sublessee's obligations in order to prevent Sublessee from being in default, Sublessee shall immediately reimburse Sublessor for (i) the amount of Minimum annual Rent, (ii) all amounts attributable to Additional Rent and (iii) all other costs and expenses incurred by Sublessor in fulfilling Sublessee's obligations in the Sublease and the Lease, together with interest on those sums at the rate of one percent (1%) per month (but in no event at a rate in

excess of that permitted by law) from the date due thereof until paid, and the amount of such interest shall be deemed Additional Rent hereunder.

9. ALTERATIONS. Sublessee shall not make or suffer to be made any alterations, additions or improvements in, on or to the Subleased Premises without the prior written consent of Sublessor and Landlord. In the event Sublessor and Landlord consent to the making of any such alteration, addition or improvement by Sublessee, the same shall be made by Sublessee at its sole cost and expense, and any contractor or person selected by Sublessee to make the same shall first be approved in writing by Sublessor and Landlord. Upon the expiration or sooner termination of this Sublease. Sublessee shall, upon demand by Sublessor, at Sublessee's sole cost and expense, with all due diligence, repair and restore the Subleased Premises to their original condition, ordinary wear and tear excepted.

10. HOLDING OVER. Sublessee will, at the termination of this Sublease by lapse of time or otherwise, yield up immediately possession to Sublessor and Landlord. If Sublessee retains possession of the Subleased Premises or any part thereof after such termination, then Sublessee shall pay to Sublessor all damages sustained by Sublessor resulting from retention of possession by Sublessee.

11. SUBLESSOR COVENANTS. Sublessor covenants to promptly pay when due all rents due and accruing to Landlord and in the event that it fails to promptly remit said rent to Landlord, Sublessor specifically authorizes and directs Sublessee, upon Sublessee's receipt of due written demand from Landlord, to remit the rent hereunder directly to Landlord and said remittance shall be deemed in lieu of the rent obligations herein contained.

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12. INDEMNIFICATION. Sublessee shall indemnify Sublessor and hold Sublessor harmless from and against any and all claims, demands, suits judgments, liabilities, costs and expenses, including reasonable attorney's fees, arising out of or in connection with Sublessee's use and possession of the Leased Premises, or by arising out of the failure of Sublessee, its agents, contractors or employees to perform any covenant, term or condition of the Lease or Sublease to be performed by Sublessee. Sublessor shall indemnify Sublessee and hold Sublessee harmless from and against any and all claims, demands, suits, judgments, liabilities, costs and expenses, including reasonable attorney's fees, arising out of the failure of Sublessor to perform any covenant, term or condition of the Lease to be performed by Sublessor hereunder.

13. ATTORNEYS' FEES. If either party shall commence an action against the other party in order to enforce any term, covenant or condition of this sublease, the prevailing party shall be entitled to recover from the losing party the costs and expenses of such action, including reasonable attorneys' fees to be set by the court in such action.

14. BROKER. Sublessee warrants and represents to Sublessor that it has dealt with no broker or real estate agent or made no agreement or created any liability with respect to this Sublease and/or the Subleased Premises or in connection with the payment of brokerage or other commissions other than Jackson-Cross ONCOR International, and Sublessee hereby agrees to indemnify, defend and hold Sublessor harmless from and against all liability, cost, or expense arising out of the claims of any other broker or real estate agent claiming by, through or under Sublessee for a commission in connection with this Sublease and/or the transaction contemplated by this Sublease.

15. EARLY TERMINATION OF SUBLEASE. Notwithstanding anything to the contrary contained in this Sublease, Sublessor or Sublessee, at its option, may terminate this Lease effective at anytime after the end of the twenty-fourth (24th) month of the term, provided, as a condition of such termination, Sublessor or Sublessee gives written notice to the other at least sixty (60) prior to the proposed date of termination, which shall be after the

twenty-fourth (24th) month of the term and anytime thereafter up to August 31, 2001, in which event the Lease shall terminate as of the expiration of the date set forth in such notice. Sublessee shall have no termination right as provided herein in the event the Sublessee has defaulted under any of the obligations of Sublessee under and pursuant to the Lease or this Sublease.

16. NOTICES. All notice or demands of any kind required or desired to be given by Sublessor or Sublessee hereunder shall be in writing and shall be deemed to be delivered seventy-two (72) hours after depositing the notice or demand in the United States Mail, certified or registered, postage prepaid, addressed to the parties as follows:

To Sublessor: qad.inc
10000 Midlantic Drive, Suite 200
Mount Laurel, NJ 08054

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To Sublessee: Origin Technology in Business, Inc.
1105 Schrock Road, Suite 816
Columbus, OH 43229

or to any other address provided to the other party in writing.

17. LANDLORD'S CONSENT. This Sublease is subject to Landlord's consent and shall be of no effect unless and until this Sublease has been accepted and agreed to by Landlord.

18. ASSIGNMENT. Without the prior consent of Sublessor, which may be withheld by Sublessor in its sole discretion, neither Sublessee, nor Sublessee's legal representatives or successors in interest shall, by operation of law, merger, or otherwise, further sublet the Premises or assign or mortgage this Sublease. If Sublessee is a corporation, none of its capital stock shall be transferred voluntarily or by operation of law without Sublessor's consent. Any consent by Sublessor to any act of assignment shall be held to apply only to the specific transaction thereby authorized. Such consent shall not be construed as a waiver of the duty of Sublessee, or the legal representatives or assigns of Sublessee, to obtain from Sublessor consent to any other or subsequent assignment, or as modifying or limiting the rights of Sublessor under the foregoing covenant by Sublessee not to assign without such consent.

19. EFFECT. This Sublease shall be binding upon the parties hereto, their heirs, executors, legal representatives, successors and permitted assigns, and may not be altered, amended, terminated or modified except by written instrument executed by each of the parties hereto.

20. FORUM. This Sublease shall be governed by the laws of the state in which the Premises is located.

21. MODIFICATION. This Sublease may not be modified or amended except by a written agreement executed by the parties hereto.

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IN WITNESS WHEREOF, this Sublease Agreement has been executed on the date and year first written.

SUBLESSOR

SUBLESSEE

qad.inc

ORIGIN TECHNOLOGY

IN BUSINESS, INC.

By: _____	By: /s/ MARTIN HENECK _____
Title: _____	Title: Vice President _____
Date: _____	Date: 1/31/95 _____

CONSENT OF OVERLANDLORD

EDB Property Partners, L.P. III, as Landlord under the Overlease ("Overlandlord"), hereby consents to the within Sublease by qad.inc to Origin Technology in Business, Inc. pursuant to Article 19 of the Overlease.

OVERLANDLORD

By: _____

Title: _____

Date: _____

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EXHIBIT "A"
SUBLEASED PREMISES

First Floor East
10,000 Midlantic Drive
Mt. Laurel, NJ 08054

EXHIBIT "A1"
SUBLEASED PREMISES

First Floor East
10,000 Midlantic Drive

Q.A.D. EXPANSION PROVISIONS

I. The Lease shall be, and hereby is, amended by deleting the text of EXHIBIT G in its entirety and inserting the following in lieu thereof:

"EXHIBIT G

(1) GENERAL. Provided that Tenant is not in default under this Lease, Tenant shall have an option to lease additional space (except space leased to Tenant) which becomes available for lease in the Building during the Lease Term (or any Renewal Term) (which may be referred to herein as the "Expansion Space" or the "expansion space"), in accordance with the terms of this EXHIBIT G, below. Notwithstanding anything to the contrary in this EXHIBIT G, in no event shall any lease by Tenant of expansion space pursuant to this EXHIBIT G be for a term which is less than thirty-six (36) months.

(2) EXPANSION SPACE LIST. Tenant shall have the right to request in writing that Landlord provide Tenant with access to a current list of all available expansion space in the Building (i.e. 10,000 Midlantic Drive) (an "Expansion Space List.") Within five (5) business days after Tenant's request therefor, Landlord shall provide Tenant with access to an Expansion Space List for the most recent calendar quarter. For confidentiality reasons, Landlord shall not deliver a copy of the written Expansion Space List to Tenant; instead, Landlord shall allow Tenant access to and reasonable opportunity to review the Expansion Space List at a time (or times) which is convenient for Tenant at either Landlord's or Tenant's offices (Tenant may select which location.) Each Expansion Space List shall include and identify:

(a) all space which is either currently vacant in the Building or expected to become available during the twelve (12) month period immediately following the date of such Expansion Space List, including the expected dates of such availability; and

(b) any space which is currently (or which is expected to become) available for Lease within such 12-month period, even if the same is subject to rights of other parties, including without limitation, any renewal, expansion, holdover or other rights or options to lease or occupy space previously granted to such other parties (a "Pre-existing Right"), and in such event the Expansion Space List shall include a description of the rights of such parties for any such space(s). Tenant acknowledges that Landlord's ability to lease any such space(s) is and shall be subject and subordinate to any and all Pre-existing Rights.

(3) TENANT'S OPTION ELECTION NOTICE. If Tenant wishes to exercise its option to lease all (but in no event less than all) of a particular space identified on the Expansion Space List which is not then subject to a Pre-existing Right, Tenant shall notify Landlord in writing ("Tenant's Option Election Notice"), such notice to identify the particular Expansion Space Tenant wishes to lease. Within five (5) business days after receipt of Tenant's Option Election Notice, Landlord shall notify Tenant in writing either: (i) that such Expansion Space is available for Tenant to lease (the "Free

& Clear Notice"), in which event Landlord and Tenant shall execute a lease for such Expansion Space in accordance with EXHIBIT G paragraph (6), below; or (ii) that there is currently another potential tenant for such Expansion Space, in which event Landlord will provide Tenant with confirmation of such potential tenant's good faith intention to lease the Expansion Space by providing Tenant

with a signed letter of intent (the "LOI") which contains the material terms under which such potential tenant is willing to lease the Expansion Space.

If Landlord provides Tenant with the LOI in accordance herewith, then Tenant shall have no expansion rights with respect to such Expansion Space for thirty (30) days after Tenant's receipt of the LOI, and Landlord and such potential tenant shall be allowed such thirty (30) day period within which to negotiate and sign a lease for such Expansion Space on materially the same terms as the LOI. If (i) Landlord provides Tenant with a Free & Clear Notice for such Expansion Space, or (ii) Landlord fails to provide Tenant with the LOI for such Expansion Space within the aforementioned five (5) business day period, or (iii) Landlord and the potential tenant under the LOI fail to execute a lease for such Expansion Space within the aforementioned thirty (30) day period, then Tenant shall have the right to lease such Expansion Space in accordance with the terms of Paragraph 6 of this EXHIBIT G, and Landlord and Tenant shall be required, in either event, to execute a lease for such Expansion Space (an "Expansion Lease") in accordance with Paragraph 4, below, within fifteen (15) business days thereafter.

(4) EXPANSION LEASE. Within fifteen (15) business days after the occurrence of one of the events described in clauses (i), (ii) or (iii) of the last sentence of Paragraph 3, above, Landlord and Tenant shall execute an Expansion Lease in accordance with the requirements of this Paragraph 4. Such Expansion Lease shall:

(i) incorporate all of the terms of this Lease, except it shall be modified to reflect (1) the actual square footage of the Expansion Space (and shall further include appropriate adjustment of Tenant's pro rata share of operating expenses and all other terms which are based on such square footage), (2) the rental rate for the Expansion Space, which shall be the identical to the rental rate then in effect for the initially leased Premises, and (3) the lease term for the Expansion Space, which shall be coterminous with the term of this Lease (unless the term of this Lease expires in less than thirty-six (36) months, in which case the term of the Expansion Lease shall be no less than thirty-six (36) months);

(ii) specify that, subject to the proration provisions and Tenant contribution requirements of Paragraph 5, below (which shall be incorporated within the Expansion Lease), Landlord shall construct leasehold improvements to the Expansion Space comparable to those in Tenant's current Premises, with Tenant to contribute to the cost of such construction in the amount specified in Paragraph 5, below, that Tenant shall not receive any buildout or other allowance or any free rent or reduced rent for or with respect to the Expansion Space, and that any additional improvements or construction that Tenant performs in the Expansion Space shall be treated as an "alteration" pursuant to Section 15 of the Lease;

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(iii) unless Landlord and Tenant specifically agree otherwise, the expansion rights of Tenant reflected in this EXHIBIT G shall not be incorporated in the Expansion Lease and any reference in the Lease to this EXHIBIT G shall be ignored and/or deleted in the Expansion Lease;

(iv) delete any expansion or renewal options, unless Landlord and Tenant expressly agree otherwise at the time, in each's sole discretion;

(v) specify that the Expansion Lease Commencement Date shall be the earlier of (1) the date Tenant takes occupancy of the Expansion Space, or (2) the ninety-first (91st) day after the Expansion Lease is signed; and

(vi) specify that Tenant shall not have the right to assign or sublet all or any portion of the Expansion Space during the two (2) year period after the Expansion Lease Commencement Date, unless (A) such sublease or

assignment requires the subtenant or assignee to pay rental at the rental rate then being offered by Landlord for comparable space within the Building, (B) Tenant pays to Landlord one-hundred percent (100%) of the "profit" realized from such sublease or assignment (i.e., 100% of (1) the rental and other consideration received from such assignee or subtenant LESS (2) the allocable rental and other consideration payable by Tenant to Landlord under the Expansion Lease with respect to the affected portion of the Expansion Space, which profit shall be calculated on a per square foot basis with respect to the affected portion of the Expansion Space, and (C) the proposed sublease or assignment is otherwise consented to by Landlord, which consent shall not be unreasonably withheld.

Landlord and Tenant agree to negotiate in good faith and to make diligent efforts to resolve any dispute or disagreement regarding the terms of the Expansion Lease within the aforementioned fifteen (15) business day period.

(5) PRORATION OF CONSTRUCTION ALLOWANCE. Tenant acknowledges that the cost to construct leasehold improvements to Tenant's existing Premises equalled approximately \$25.00 per square foot of rentable area. To the extent the term of any Expansion Lease is less than eighty-four (84) months, Landlord's construction obligation referenced in Paragraph 4(ii), above, shall be capped at a per square foot cost equal the product of \$25.00 times a fraction, the numerator of which is the number of months in the term of the Expansion Lease, and the denominator of which is 84 (hereafter, the "Capped Cost"). Tenant shall be responsible for (and shall deposit with Landlord prior to, and as a condition to, and as "Capped Cost"). Tenant shall be responsible for (and shall deposit with Landlord prior to, and as a condition to, Landlord's commencement of such construction, an amount equal to) all costs of Landlord's construction under Paragraph 4(ii), above, in excess of the Capped Cost. All such construction work shall be competitively bid. This proration provision shall be incorporated in the terms of any Expansion Lease.

(6) TENANT'S FAILURE TO EXECUTE EXPANSION LEASE. In the event Tenant fails or declines to exercise its option to lease an Expansion Space within the requisite time periods provided for in this EXHIBIT G, or in the event Tenant fails or declines to execute and deliver the Expansion Lease within the requisite time period provided for in this EXHIBIT G, after Tenant exercises its option (such

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events are hereinafter collectively referred to as a "Failure To Expand"), then in either such event for a period of sixty (60) days.

(7) MISCELLANEOUS. Time is of the essence of all provisions and time periods set forth in this EXHIBIT G. In addition, Tenant acknowledges and agrees that Tenant's right to lease additional space and any other rights granted under this EXHIBIT G are granted exclusively to Tenant and not to any assignee or sublessee of Tenant.

(8) SPECIFIC RIGHTS TO TWO EXPANSION PREMISES. Without limiting the general expansion rights provided for herein, Landlord agrees that, as modified in this Paragraph 8, the option set forth in this EXHIBIT G shall apply to two spaces which are, or are expected to become, available within the Building, one consisting of approximately 8,000 square feet of rentable area ("Space A") and the other consisting of approximately 12,000 square feet of rentable area ("Space B"), each of which is identified in SCHEDULE G-1 attached to this EXHIBIT G. In the event Landlord receives an offer to lease Space A and/or Space B from a prospective tenant or its broker at any time after the date hereof, Landlord will so notify Tenant, and Tenant will have the right, within ten (10) days after Landlord provides Tenant with such Notice, to provide a "Tenant's Expansion Option Notice" to Landlord with respect thereto. If Tenant provides such Tenant's Expansion Option Notice under this Paragraph 8 within such ten (10) day period, then Landlord shall be deemed to have given Tenant a

"Free & Clear" notice for the applicable space on the same date that Landlord received Tenant's Expansion Option Notice, and the remaining provisions of Paragraphs 4 - 7, above, shall apply to the Expansion Lease for such space. If Tenant fails to provide such Tenant's Expansion Option Notice for such space within such ten (10) day period, then Tenant's option to lease such space under this Paragraph 8 shall be extinguished and shall be null and void and of no further force and effect. [PLEASE NOTE: TONY RIMIKIS IS TO PROVIDE YOU WITH A SPECIFIC DESCRIPTION OF THESE TWO SPACES UNDER SEPARATE COVER].

THIRD AMENDMENT TO
MULTI-TENANT OFFICE LEASE

THIS THIRD AMENDMENT TO MULTI-TENANT OFFICE LEASE (this "Amendment"), made this 30th day of November, 1995, is made by and between EDB Property Partners L.P. I, a Delaware limited partnership ("Landlord"), and q.a.d., inc., a California corporation ("Tenant").

R1. WHEREAS, Laurel Larchmont Office, Inc. ("LLO") and Tenant were the original parties to an undated multi-tenant office lease (the "Original Lease") for approximately 57,271 square feet (the "Original Premises") located in suites 103, 105 and 200 East and 200 West of the building located at 10000 Midlantic Drive, Mount Laurel, New Jersey (the "Building"); and

R2. WHEREAS, the Original Lease has been amended by one unnumbered Amendment to Multi-Tenant Office Lease dated April 26, 1994 (which contains a Rider) and a Second Amendment to Multi-Tenant Office Lease (the "Second Amendment") dated May 30, 1995 (the Original Lease, as amended to date, is herein called the "Lease") which amendments, among other things, expanded the Original Premises to approximately 61,183 square feet (said original expansion space, the "Original Additional Space"; and the Original Premises, as heretofore expanded, the "Premises"); and

R3. WHEREAS, Landlord is the successor-in-interest to all of LLO's right, title and interest in and to the Lease; and

R4. WHEREAS, Tenant desires, and Landlord is willing, on the terms and conditions set forth herein, to expand the Premises and lease additional space of approximately 717 square feet (the "New Additional Space") causing the Original Premises to be expanded by a total of 4,629 square feet (the Original Additional Space, together with the New Additional Space, shall hereinafter be referred to as the "Additional Space"); and

R5. WHEREAS, the parties hereto mutually desire, effective as of the date of execution of this Amendment, to amend the Lease on such terms and conditions as are more fully set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. The Lease is hereby further amended as follows:

A. The term "Additional Space" as used in the Lease, as amended, shall refer to the 4,629 square feet shown as EXHIBIT A-1 annexed hereto and incorporated herein by this reference.

B. Section 5 (Premises) of the Lease shall be, and the same hereby is, amended by deleting the words "Suite 100 East (the "Additional Space") 3,912 s.f." in the tenth (10th) written line and inserting in their place "Suite 101 East (the "Additional Space") 4,629 s.f." and by deleting the words "Total: 61,183 s.f." in the eleventh (11th) written line and inserting in their place "Total: 61,900 s.f.". The intent of this provision is to add the Additional Space to the definition of "Premises" in the Lease.

C. EXHIBIT A of the Lease which depicts the Premises shall be, and the same hereby is, amended by deleting therefrom the pages labeled "EXHIBIT A - ADDITIONAL SPACE" attached to the Second Amendment and adding in lieu thereof the page labeled "EXHIBIT A-1 - ADDITIONAL SPACE" attached hereto and incorporated herein by this reference.

D. Effective as of the Occupancy Date (as defined in Section G of the Second Amendment), Section 8 (Rent), subsection (b) of the Lease shall be,

and hereby is, amended by deleting therefrom the fifth (5th) sentence, in its entirety, and inserting in lieu thereof the following sentence:

"The Tenant's proportionate share is thirty-five and three-tenths (35.3%) percent (61,900 s.f./175,573 s.f. = 35.3%)."

E. Section 8 (Rent), subsection (c) of the Lease shall be, and hereby is, amended by deleting therefrom the last sentence, in its entirety, and inserting the following sentence in its place:

"The percentage for the Premises is thirty-five and three-tenths (35.3%) percent."

F. Section 8 (Rent), subsection (c) of the Lease shall be, and hereby is, amended by adding after the phrase "per sq. ft." each time it appears in said subparagraph the following parenthetical: (based on 4,629 sq. ft.)". It is the intent of the parties that the New Additional Space be included when calculating the Rent to be paid under said subsection (e).

2. Except as expressly modified by this Amendment, the Lease shall remain unmodified and shall continue in full force and effect.

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3. All capitalized terms used but not defined in this Amendment shall have the same meanings ascribed to them under the Lease.

4. If any provision of this Amendment is held to be invalid or unenforceable, the same shall not affect the validity or enforceability of the other provisions of this Amendment, which shall continue in full force and effect, as if the invalid or unenforceable provision had been deleted.

5. This Amendment contains the entire agreement of the parties hereto and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein, shall be of any force or effect. This Amendment and the Lease may be further amended only in writing signed by both Landlord and Tenant. If any provision of this Amendment conflicts with any provision of the Lease, the provision of this Amendment shall be controlling.

6. Landlord agrees that the Consent to Sublease dated May 30, 1995 shall be deemed applicable to that certain Amended and Restated Sublease, the form of which is attached hereto as EXHIBIT B and incorporated herein by this reference.

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

LANDLORD:

EDB Property Partners L.P. I,
a Delaware limited partnership

By: Emmes Laurel Property Corp.,
its general partner

By:

Name:
Title:

TENANT:

q.a.d., inc.,
a California corporation

By: /s/ Douglas Marsh

Name: Douglas Marsh Dec 7, 1995

Title: VP Operations

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[FLOOR PLAN]

EXHIBIT B

AMENDED AND RESTATED SUBLEASE

THIS AMENDED AND RESTATED SUBLEASE ("Amended and Restated Sublease") is entered into as of the _____ day of September, 1995 by and between ORIGIN TECHNOLOGY IN BUSINESS, INC., a Delaware corporation, with its principal place of business at 1105 Schrock Road, Suite 816, Columbus, Ohio 43229 (hereinafter "Sublessee") and qad inc., a California corporation, with its principal place of business at 6450 Via Real, Carpinteria, California, 93013 (hereinafter "Sublessor").

THE PARTIES ENTER into this Amended and Restated Sublease on the basis of the following facts, intentions and understanding:

WHEREAS, Sublessor and Sublessee entered into a certain lease dated July 6, 1994 (the "Original Sublease") covering the Premises (as defined in the Original Sublease); and

WHEREAS, Sublessor and Sublessee now desire to sublease certain additional premises, for a total of approximately 4,629 square feet on the first floor of the East Wing of 10,000 Midlantic Drive, Mt. Laurel, New Jersey 08054, as outlined on Exhibit "A" and "A1" attached hereto (hereinafter "Subleased Premises") upon the terms, covenants and conditions as hereinafter provided. This subletting is subject to the terms of sublessor's letting of the Subleased Premises by Lease dated 30th day of May, 1995 (The "Lease"). A copy of said lease ("The Lease") is attached hereto as Exhibit "B".

WHEREAS, Sublessor and Sublessee intend that the terms of this Amended and Restated Sublease Agreement (hereinafter, the "Sublease") amend and restate the terms of the Original Sublease and establish the rights and obligations of the parties with regard to the matters set forth herein from and after the date (the "Execution Date") of execution hereof;

NOW, THEREFORE, in consideration of the mutual covenants and promises of the parties herein contained, the parties agree as follows:

1. SUBLEASE.

a. As of the Execution Date, the Original Sublease shall be hereby amended and restated as set forth in this Amended and Restated Sublease. Hereafter this Amended and Restated Sublease shall govern all the rights and obligations of the parties hereto with respect to the subject matter hereof, and the Original Sublease shall be null and void and of no further force or effect.

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b. Sublessor hereby agrees to lease the Subleased Premises to Sublessee and Sublessee agrees to lease the Subleased Premises from Sublessor

on the conditions hereinafter set forth.

2. CONDITION OF SUBLEASED PREMISES. Sublessee shall accept the Subleased Premises in their existing "AS IS" condition, subject to all applicable municipal, county, state and federal laws, statutes, ordinances, including zoning and regulations governing and relating to the use, occupancy and possession of the Subleased Premises. Sublessee recognizes and agrees that Sublessor shall not be required to perform any work or construction on the Subleased Premises in order to prepare the same for Sublessee's occupancy. By entering the Subleased Premises, Sublessee shall be deemed to accept the Subleased Premises in their condition existing as of the date of such entry.

3. AMENDED AND RESTATED SUBLEASE SUBJECT TO LEASE. This Amended and Restated Sublease shall be subject to all of the terms, covenants and conditions of the Lease and Sublessee shall assume and perform the obligations of Sublessor as Tenant in the Lease with respect to the Subleased Premises, except for the payment of minimum annual rent contained in the Lease. Sublessee shall not commit or permit to be committed on the Subleased Premises any act or omission which shall violate any terms, covenants or conditions of the Lease applicable to Sublessee. In the event of any inconsistency between the Lease and the Amended and Restated Sublease, the terms of this Amended and Restated Sublease shall control. All of the terms, covenants and conditions in the Lease are incorporated herein as terms, covenants and conditions of this Amended and Restated Sublease, except for any paragraphs which shall be superseded by this Amended and Restated Sublease. To the extent that the Lease provides that Landlord shall provided services, utilities, insurance, maintenance, repairs or any and all other obligations of Landlord rendered in connection with the operation of the Subleased Premises, Sublessee shall seek recourse first from Landlord by notice to Landlord with a copy simultaneously provided to Sublessor. If Landlord shall not take action after request is made by Sublessee after the passing of any applicable cure period specified in the Lease, then Sublessee may notify Sublessor of such failure. Upon receipt of such notice, Sublessor shall use prompt, reasonable efforts to enforce Sublessor's rights under the Lease for the benefit of Sublessee. Sublessor shall have no duty to perform any obligations of the Landlord under the Overlease and shall under no circumstances be responsible for or liable to Sublessee for any default, failure or delay on the part of the Landlord in the performance of any obligations under the Overlease, nor shall such default of the Landlord affect this Amended and Restated Sublease or waive or defer the performance of any of Sublessee's obligations hereunder. In addition, Sublessee shall have no right to exercise the Renewal Option, Right of First Offer or Early Termination of Lease rights granted pursuant to Exhibit "E", "G" and "H", respectively, of the Lease.

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4. TERM. The term ("Term") of this Amended and Restated Sublease shall commence on the date (The Commencement Date) which is the earlier of (i) the date which is one hundred twenty (120) days after the Second Amendment to Multi-Tenant Office Lease (the Second Amendment) is executed by the Sublessor, EDB Property Partners, L.P. III, Landlord under the Lease or (ii) the date on which a final Certificate of Occupancy is obtained by the Sublessee.

5. RENT.

A. MINIMUM ANNUAL RENT.

Sublessee shall pay to Sublessor rental as set forth below:
The date of Amended and Restated Sublease rent schedule is based upon the Overlease anniversary date of September 1

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- - - - -
TERM PER SQUARE FOOT MONTHLY ANNUAL RENT

	RATE	RENT	
Commencement Date-August 1995	\$12.00 (x 4.629 square feet)	\$4,629.00	\$55,548.00
Year 2: Sept. 1995-August 1995	\$12.00	\$4,629.00	\$55,548.00
Years 3 through 5: Sept 1996 to Aug 1999	\$12.50	\$4,821.88	\$57,862.50
Years 6 and 7: Sept 1999 to Aug 2001	\$13.00	\$5,014.75	\$60,177.00

payable on the first business day of each month during the term of this Amended and Restated Sublease except that the first month's rent shall be payable upon the execution of this Amended and Restated Sublease.

Notwithstanding the forgoing, provided Sublessee is not in default of this Amended and Restated Sublease, if the Leased Premises Commencement Date is earlier than ninety (90) days after the Second Amendment is executed, then Sublessee shall not be obligated to pay rent for the Leased Premises until the thirtieth (30th) day after such Leased Premises Commencement Date AND if the Leased Premises Commencement Date is on or after such ninetieth (90th) day, the Sublessee shall

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not be obligated to pay rent for the Subleased Premises until the date which is one hundred twenty (120) days after the Second Amendment is executed.

b. In addition to the minimum annual rental, Sublessee shall pay to Sublessor its proportionate share of all operating costs incurred during each calendar year (prorated where appropriate) during the term of this Sublease.

This operating cost shall be estimated by Sublessor at the commencement of occupancy and Sublessee shall pay to Sublessor in addition to the basic rent and on the same day provided in paragraph 5(a) 1/12 thereof. The estimated operating cost for the year in which this Lease commences is \$7.00 per rentable square foot. The operating expenses shall include all costs normally incurred in the maintenance and operation of an office building, less any charges invoiced directly to other tenants in the building and shall include:

i. Real estate taxes assessed on the building, land underlying same, parking areas or other common elements including any assessments or municipal improvements;

ii. All costs and expense directly related to the operation of the building including preparing units for rental, lighting, cleaning, insuring, removing snow, ice and debris, policing and regulating traffic in the area immediately adjacent to the building and depreciation of machinery and equipment used for such operation;

iii. All costs and expense, other than those of a capital nature, or replacing paving, curbs, walkways, landscaping (including replanting and replacing flowers and other planting), drainage and lighting facilities in the building and areas immediately adjacent thereto;

- iv. Electricity and fuel used in lighting, heating, ventilating, and air conditioning of the Premises;
- v. Maintenance and mechanical and electrical equipment including heating, ventilating and air conditioning equipment in the Premises;
- vi. Window cleaning and janitorial service, including janitorial equipment and supplies;
- vii. Maintenance of elevators, rest rooms, lobbies, hallways and other common areas of the building;

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- viii. Wages for personnel directly involved in the building management and operating, including all taxes payable by Sublessor thereon and fringe benefits;
- ix. Water and sewer rents, charges and standby fees;
- x. Accounting fees, management fees and legal fees which directly benefit the overall operation of the building, it is expressly agreed that legal fees incurred in an action against an individual tenant shall not be deemed includable as an operating expense pursuant to this provision; and
- xi. All costs associated with maintaining, operating and monitoring any security system or sprinkler system.

c. In determining operating expenses, if less than 95% of the rentable area of the building has been occupied by tenants for more than thirty (30) days during such year, operating expenses shall be deemed for such year to be an amount equal to the like expenses which would normally be expected to be incurred had such occupancy of the building been 95% throughout such year, as reasonably determined by Landlord.

d. Rent shall be paid to the Sublessor at 10000 Midlantic Drive, Mount Laurel, New Jersey 08054, or at such other place or places as Sublessor may from time to time direct.

e. Sublessee shall not request Landlord to provide services, materials or supplies in excess of the basic services, which Landlord is obligated to provide under the Lease without first obtaining the written consent of Sublessor, which consent shall not be unreasonably withheld. Upon notification to Sublessor by Sublessee of termination of any services, or impairment of any services, Sublessor shall immediately notify Landlord in accordance with the notice provision of the Lease.

f. Sublessee shall pay to Sublessor as additional rent, within ten (10) days after demand therefore by Sublessor, any and all other additional rent payments and sums due pursuant to the lease.

6. LATE PAYMENT. Rent is due and payable on or before the first day of each month. Rent received after the tenth (10th) of the month is subject to a late charge of ten (10%) percent of the monthly payment which charge must accompany rent. An additional charge will be made for checks returned for insufficient funds.

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7. INSURANCE.

a. Sublessee shall carry and maintain during the entire term of the Sublease the insurance required pursuant to the Lease. In addition, Sublessee shall name Sublessor as an additional insured with respect to said insurance.

b. Sublessee shall, prior to the commencement of the term, and during the term, thirty (30) days prior to the expiration of the policy of insurance, furnish to Sublessor and Landlord certificates evidencing such coverage, which certificates shall state that such insurance coverage may not be changed or canceled without at least ten (10) days' prior written notice to Sublessor and Landlord.

8. DEFAULT. In the event Sublessee shall breach any of the terms, covenants or conditions of this Amended and Restated Sublease or the Lease, then, in that event, in addition to the remedies Landlord may have against Tenant for Tenant default in the Lease, Sublessor shall have the right to enter and retake the Subleased Premises and terminate Sublessee's interest under this Amended and Restated Sublease. If Sublessee defaults under the Lease, Sublessee shall indemnify, defend by counsel acceptable to Sublessor and hold Sublessor harmless from and against all damages resulting from such default. If Sublessee defaults under Sublessee's obligations under this Amended and Restated Sublease and Sublessor fulfills any of Sublessee's obligations in order to prevent Sublessee from being in default, Sublessee shall immediately reimburse Sublessor for (i) the amount of Minimum Annual Rent, (ii) all amounts attributable to Additional Rent and (iii) all other costs and expenses incurred by Sublessor in fulfilling Sublessee's obligations in the Sublease and the Lease, together with interest on those sums at the rate of one percent (1%) per month (but in no event at a rate in excess of that permitted by law) from the date due thereof until paid, and the amount of such interest shall be deemed Additional Rent hereunder.

9. ALTERATIONS. Sublessee shall not make or suffer to be made any alterations, additions or improvements in, on or to the Subleased Premises without the prior written consent of Sublessor and Landlord. In the event Sublessor and Landlord consent to the making of any such alteration, addition or improvement by Sublessee, the same shall be made by Sublessee at its sole cost and expense, and any contractor or person selected by Sublessee to make the same shall first be approved in writing by Sublessor and Landlord. Upon the expiration or sooner termination of this Amended and Restated Sublease, Sublessee shall, upon demand by Sublessor, at Sublessee's sole cost and expense, with all due diligence, repair and restore the Subleased Premises to their original condition, ordinary wear and tear excepted.

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10. HOLDING OVER. Sublessee will, at the termination of this Amended and Restated Sublease by lapse of time or otherwise, yield up immediately possession to Sublessor and Landlord. If Sublessee retains possession of the Subleased Premises or any part thereof after such termination, then Sublessee shall pay to Sublessor all damages sustained by Sublessor resulting from retention of possession by Sublessee.

11. SUBLESSOR COVENANTS. Sublessor covenants to promptly pay when due all rents due and accruing to Landlord and in the event that it fails to promptly remit said rent to Landlord, Sublessor specifically authorizes and directs Sublessee, upon Sublessee's receipt of due written demand from Landlord, to remit the rent hereunder directly to Landlord and said remittance shall be deemed in lieu of the rent obligations herein contained.

12. INDEMNIFICATION. Sublessee shall indemnify Sublessor and hold Sublessor harmless from and against any and all claims, demands, suits, judgments, liabilities, costs and expenses, including reasonable attorneys' fees, arising out of or in connection with Sublessee's use and possession of

the Leased Premises, or by arising out of the failure of Sublessee, its agents, contractors or employees to perform any covenant, term or condition of the Lease or Sublease to be performed by Sublessee. Sublessor shall indemnify Sublessee and hold Sublessee harmless from and against any and all claims, demands, suits, judgments, liabilities, costs and expenses, including reasonable attorneys' fees, arising out of the failure of Sublessor to perform any covenant, term or condition of the Lease to be performed by Sublessor thereunder.

13. ATTORNEYS' FEES. If either party shall commence an action against the other party in order to enforce any term, covenant or condition of this Amended and Restated Sublease, the prevailing party shall be entitled to recover from the losing party the costs and expenses of such action, including reasonable attorneys' fees to be set by the court in such action.

14. BROKER. Sublessee warrants and represents to Sublessor that it has dealt with no broker or real estate agent or made no agreement or created any liability with respect to this Amended and Restated Sublease and/or the Subleased Premises or in connection with the payment of brokerage or other commissions other than Jackson-Cross ONCOR International, and Sublessee hereby agrees to indemnify, defend and hold Sublessor harmless from and against all liability, cost, or expense arising out of the claims of any other broker or real estate agent claiming by, through or under Sublessee for a commission in connection with this Amended and Restated Sublease and/or the transaction contemplated by this Sublease.

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10. HOLDING OVER. Sublessee will, at the termination of this Amended and Restated Sublease by lapse of time or otherwise, yield up immediately possession to Sublessor and Landlord. If Sublessee retains possession of the Subleased Premises or any part thereof after such termination, then Sublessee shall pay to Sublessor all damages sustained by Sublessor resulting from retention of possession by Sublessee.

11. SUBLESSOR COVENANTS. Sublessor covenants to promptly pay when due all rents due and accruing to Landlord and in the event that it fails to promptly remit said rent to Landlord, Sublessor specifically authorizes and directs Sublessee, upon Sublessee's receipt of due written demand from Landlord, to remit the rent hereunder directly to Landlord and said remittance shall be deemed in lieu of the rent obligations herein contained.

12. INDEMNIFICATION. Sublessee shall indemnify Sublessor and hold Sublessor harmless from and against any and all claims, demands, suits, judgments, liabilities, costs and expenses, including reasonable attorneys' fees, arising out of or in connection with Sublessee's use and possession of the Leased Premises, or by arising out of the failure of Sublessee, its agents, contractors or employees to perform any covenant, term or condition of the Lease or Sublease to be performed by Sublessee. Sublessor shall indemnify Sublessee and hold Sublessee harmless from and against any and all claims, demands, suits, judgments, liabilities, costs and expenses, including reasonable attorneys' fees, arising out of the failure of Sublessor to perform any covenant, term or condition of the Lease to be performed by Sublessor thereunder.

13. ATTORNEYS' FEES. If either party shall commence an action against the other party in order to enforce any term, covenant or condition of this Amended and Restated Sublease, the prevailing party shall be entitled to recover from the losing party the costs and expenses of such action, including reasonable attorneys' fees to be set by the court in such action.

14. BROKER. Sublessee warrants and represents to Sublessor that it has dealt with no broker or real estate agent or made no agreement or created any

liability with respect to this Amended and Restated Sublease and/or the Subleased Premises or in connection with the payment of brokerage or other commissions other than Jackson-Cross ONCOR International, and Sublessee hereby agrees to indemnify, defend and hold Sublessor harmless from and against all liability, cost, or expense arising out of the claims of any other broker or real estate agent claiming by, through or under Sublessee for a commission in connection with this Amended and Restated Sublease and/or the transaction contemplated by this Sublease.

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15. EARLY TERMINATION OF SUBLEASE. Notwithstanding anything to the contrary contained in this Amended and Restated Sublease, Sublessor or Sublessee, at its option, may terminate this Amended and Restated Sublease effective at anytime after end of the twenty-fourth (24th) month of the term, provided, as a condition of such termination, Sublessor or Sublessee gives written notice to the other at least sixty (60) days prior to the proposed date of termination, which shall be after the twenty-fourth (24th) month of the term and anytime thereafter up to August 31, 2001, in which event the Amended and Restated Sublease shall terminate as of the expiration of the date set forth in such notice. Sublessee shall have no termination right as provided herein in the event the Sublessee has defaulted under any of the obligations of Sublessee under and pursuant to the Lease or this Amended and Restated Sublease.

16. NOTICES. All notice or demands of any kind required or desired to be given by Sublessor or Sublessee hereunder shall be in writing and shall be deemed to be delivered seventy-two (72) hours after depositing the notice or demand in the United States Mail, certified or registered, postage prepaid, addressed to the parties as follows:

To Sublessor: qad.inc
10000 Midlantic Drive, Suite 200
Mount Laurel, NJ 08054

To Sublessee: Origin Technology in Business, Inc.
1105 Schrock Road, Suite 816
Columbus, OH 43229

or to any other address provided to the other party in writing.

17. LANDLORD'S CONSENT. This Amended and Restated Sublease is subject to Landlord's consent and shall be of no effect unless and until this Amended and Restated Sublease has been accepted and agreed to by Landlord.

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18. ASSIGNMENT. Without the prior written consent of Sublessor, which may be withheld by Sublessor in its sole discretion, neither Sublessee, nor Sublessee's legal representatives or successors in interest shall, by operation of law, merger, or otherwise, further sublet the Subleased Premises or assign or mortgage this Amended and Restated Sublease. If Sublessee is a corporation, none of its capital stock shall be transferred voluntarily or by operation of law without Sublessor's written consent. Any consent by Sublessor to any act of assignment shall be held to apply only to the specific transaction thereby authorized. Such consent shall not be construed as a waiver of the duty of Sublessee, or the legal representatives or assigns of Sublessee, to obtain from Sublessor consent to any other or subsequent assignment, or as modifying or limiting the rights of Sublessor under the foregoing covenant by Sublessee not to assign without such consent.

19. EFFECT. This Amended and Restated Sublease shall be binding upon

the parties hereto, their heirs, executors, legal representatives, successors and permitted assigns, and may not be altered, amended, terminated or modified except by written instrument executed by each of the parties hereto.

20. FORUM. This Amended and Restated Sublease shall be governed by the laws of the state in which the Premises is located.

21. MODIFICATION. This Amended and Restated Sublease may not be modified or amended except by a written agreement executed by the parties hereto.

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IN WITNESS WHEREOF, this Sublease Agreement has been executed on the date and year first written.

SUBLESSOR

SUBLESSEE

qad.inc

ORIGIN TECHNOLOGY
IN BUSINESS, INC.

By: /s/ Douglas Marsh KL

By: /s/

Title: VP OPERATIONS

Title: VP

Date: DEC 7, 1995

Date: 11/30/95

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AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER (the "MERGER AGREEMENT"), dated as of July 8, 1997, is entered into by and between QAD Inc., a California corporation ("QAD-CALIFORNIA"), and QAD Inc., a Delaware corporation ("QAD-DELAWARE").

RECITALS

1. QAD-California is a corporation duly organized and existing under the laws of the State of California.
2. QAD-Delaware is a corporation duly organized and existing under the laws of the State of Delaware.
3. On the date of this Merger Agreement, QAD-California's authorized capital consists of 155,000,000 shares, consisting of 149,000,000 shares of Class A Common Stock, no par value per share (the "QAD-CALIFORNIA CLASS A COMMON STOCK"), of which 22,524,234 shares are issued and outstanding; 1,000,000 shares of Class B Common Stock, no par value per share (the "QAD-CALIFORNIA CLASS B COMMON STOCK"), of which four shares are issued and outstanding; and 5,000,000 shares of Preferred Stock, no par value per share (the "QAD-CALIFORNIA PREFERRED STOCK"), of which none are issued and outstanding.
4. On the date of this Merger Agreement, QAD-Delaware's authorized capital consists of 155,000,000 shares of stock, consisting of 149,000,000 shares of Class A Common Stock, par value \$.001 per share (the "QAD-DELAWARE CLASS A COMMON STOCK"), of which none are issued and outstanding; 1,000,000 shares of Class B Common Stock, par value \$.001 per share (the "QAD-DELAWARE CLASS B COMMON STOCK"), of which 1 share is issued and outstanding and owned by QAD-California; and 5,000,000 shares of preferred stock, par value \$.001 per share (the "QAD-DELAWARE PREFERRED STOCK"), of which none are issued and outstanding.
5. The respective Boards of Directors of QAD-California and QAD-Delaware have determined that it is advisable and in the best interests of each such corporation that QAD-California merge with and into QAD-Delaware upon the terms and subject to the conditions of this Merger Agreement for the purpose of effecting the reincorporation of QAD-California in the State of Delaware (the "MERGER").
6. The respective Boards of Directors of QAD-California and QAD-Delaware have, by resolutions duly adopted, approved this Merger Agreement. The holders of a majority of the shares of QAD-California Class A Common Stock outstanding and all of the shares of QAD-California Class B Common Stock outstanding

have adopted and approved this Merger Agreement, and QAD-California has adopted and approved this Merger Agreement as the sole stockholder of QAD-Delaware.

7. The parties intend by this Merger Agreement to effect a "reorganization" under Section 368 of the Internal Revenue Code of 1986, as amended.

TERMS AND PROVISIONS OF REINCORPORATION

In consideration of the foregoing Recitals and of the following terms and provisions, and subject to the following conditions, it is agreed:

1. MERGER. The effective time of the Merger (the "EFFECTIVE TIME") shall occur at the latest of (a) the time and date that shareholders of QAD-California approve this Merger Agreement and the Merger, (b) the time and date that a certificate of merger is duly filed with the Secretary of State of Delaware with respect to the Merger, or (c) the time and date that the certificate of merger is duly filed with the California Corporation Commission with respect to the Merger. As of the Effective Time, QAD-California shall be merged with and into QAD-Delaware, QAD-Delaware shall be the surviving corporation of the Merger (hereinafter sometimes referred to as the "SURVIVING CORPORATION"), and the separate corporate existence of QAD-California shall cease.

2. GOVERNING DOCUMENTS.

a. The Certificate of Incorporation of QAD-Delaware, as it may be amended or restated subject to applicable law, and as in effect immediately prior to the Effective Time, shall constitute the Certificate of Incorporation of the Surviving Corporation without further change or amendment until thereafter amended in accordance with the provisions thereof and applicable law.

b. The Bylaws of QAD-Delaware as in effect immediately prior to the Effective Time shall constitute the Bylaws of the Surviving Corporation without change or amendment until thereafter amended in accordance with the provisions thereof and applicable law.

3. OFFICERS AND DIRECTORS. The persons who are officers and directors of QAD-California immediately prior to the Effective Time shall, after the Effective Time, be the officers and directors of the Surviving Corporation, without change until their successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Certificate of Incorporation and Bylaws and applicable law. The directors of QAD-California are as follows: Pamela M. Lopker, Karl F. Lopker and Evan M. Bishop.

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4. NAME. The name of the Surviving Corporation shall continue to be QAD Inc.

5. SUCCESSION. At the Effective Time, the separate corporate existence of QAD-California shall cease, and the Surviving Corporation shall possess all the rights, privileges, powers and franchises of a public or private nature and be subject to all the restrictions, disabilities and duties of QAD-California; and all property, real, personal and mixed, and all debts due to QAD-California on whatever account, as well as for share subscriptions and all other things in action, shall be vested in the Surviving Corporation; and all property, rights, privileges, powers and franchises, and all and every other interest shall be thereafter as effectually the property of the Surviving Corporation as they were of QAD-California, and the title to any real estate vested by deed or otherwise shall not revert or be in any way impaired by reason of the Merger; but all rights of creditors and liens upon any property of QAD-California shall be preserved unimpaired, and all debts, liabilities and duties of QAD-California shall thenceforth attach to the Surviving Corporation and may be enforced against it to the same extent as if such debts, liabilities and duties had been incurred or contracted by it; PROVIDED, HOWEVER, that such liens upon property of QAD-California will be limited to the property affected thereby immediately prior to the Merger. All corporate acts, plans, policies, agreements, arrangements, approvals and authorizations of QAD-California, its shareholders, Board of Directors and committees thereof, officers and agents which were valid and effective immediately prior to the Effective Time, shall be taken for all purposes as the acts, plans, policies, agreements,

arrangements, approvals and authorizations of the Surviving Corporation and shall be as effective and binding thereon as the same were with respect to QAD-California.

6. FURTHER ASSURANCES. From time to time, as and when required or requested by the Surviving Corporation or by its successors and assigns, there shall be executed and delivered on behalf of QAD-California such deeds, assignments and other instruments, and there shall be taken or caused to be taken by it all such further and other action, as shall be appropriate or necessary in order to vest, perfect or confirm, of record or otherwise, in the Surviving Corporation the title to and possession of all property, interests, assets, rights, privileges, immunities, powers, franchises and authority of QAD-California and otherwise to carry out the purposes of this Merger Agreement, and the officers and directors of the Surviving Corporation are fully authorized in the name and on behalf of QAD-California or otherwise, to take any and all such action and to execute and deliver any and all such deeds, assignments and other instruments.

7. CONVERSION OF SHARES. At the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof:

a. Each share of QAD-California Class A Common Stock outstanding immediately prior to the Effective Time shall be converted into, and shall

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become, one fully paid and nonassessable share of QAD-Delaware Class A Common Stock.

b. Each share of QAD-California Class B Common Stock outstanding immediately prior to the Effective Time shall be converted into, and shall become, one fully paid and nonassessable share of QAD-Delaware Class B Common Stock.

c. The 1 share of QAD-Delaware Class B Common Stock issued and outstanding in the name of QAD-California shall be cancelled and retired, and no payment shall be made with respect thereto, and such share shall resume the status of an authorized and unissued share of QAD-Delaware Class B Common Stock.

8. STOCK CERTIFICATES. At and after the Effective Time, any outstanding certificates which immediately prior to the Effective Time represented shares of QAD-California Class A Common Stock or QAD-California Class B Common Stock shall be deemed for all purposes to evidence ownership of, and to represent shares of, QAD-Delaware Class A Common Stock or QAD-Delaware Class B Common Stock, respectively, into which such shares of QAD-California formerly represented by such certificates have been converted as herein provided. The registered owner on the books and records of QAD-California or its transfer agent of any such outstanding stock whether certificated or not shall have and be entitled to exercise any voting or other rights with respect to and to receive any dividends and other distributions upon the shares of QAD-Delaware Class A Common Stock or QAD-Delaware Class B Common Stock evidenced by such outstanding shares as above provided.

9. OPTIONS; STOCK GRANTS. Each right in or to, or option to purchase, shares of QAD-California Class A Common Stock granted under any of the QAD-California Non-Qualified Stock Option Agreements (the "OPTION AGREEMENTS") which are outstanding immediately prior to the Effective Time (collectively, the "Options"), and any shares of QAD-California Class A Common Stock granted under the 1994 Stock Ownership Program (the "STOCK PROGRAM") which, as of the Effective Time, have not yet vested (the "UNVESTED SHARES"), shall, by virtue of the Merger and without any action on the part of the holder thereof, be converted into and/or become a right in or to, or an option to purchase at the same option price per share, as the case may be,

the same number of shares of QAD-Delaware Common Stock, upon the same terms and subject to the same conditions as set forth in their respective Option Agreements or in the Stock Program as in effect at the Effective Time. A number of shares of QAD-Delaware Common Stock shall be reserved for purposes of the Option Agreements that is equal to the number of shares of QAD-California Class A Common Stock that could have been purchased pursuant to the Options (assuming all Options were exercised) as of the Effective Time. A number of shares of QAD-Delaware Common Stock shall be reserved for purposes of the Stock Program that is equal to the number of Unvested Shares as of the Effective Time. As of the Effective Time, the Surviving Corporation hereby assumes

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each of the Option Agreements and the Stock Program and all obligations of QAD-California thereunder including the outstanding rights or options or portions thereof granted pursuant to the Option Agreements or the Stock Program.

10. OTHER EMPLOYEE BENEFIT PLANS. As of the Effective Time, the Surviving Corporation hereby assumes all obligations of QAD-California under any and all employee benefit plans in effect as of the Effective Time or with respect to which employee rights or accrued benefits are outstanding as of the Effective Time.

11. CONDITION. The consummation of the Merger and related transactions are subject to satisfaction of the following conditions prior to the Effective Time:

a. All necessary action shall have been taken to authorize the execution, delivery and performance of the Merger Agreement by QAD-California and QAD-Delaware.

b. All regulatory approvals necessary or desirable in connection with the consummation of the Merger and the transaction contemplated thereby shall have been obtained.

c. No suit, action, proceeding or other litigation shall have been commenced or threatened to be commenced which, in the opinion of QAD-California or QAD-Delaware would pose a material restriction on or impair consummation of the Merger, performance of this Merger Agreement or the conduct of the business of QAD-Delaware after the Effective Time, or create a risk of subjecting QAD-California or QAD-Delaware, or their respective shareholders, officers or directors, to material damages, costs, liability or other relief in connection with the Merger or this Merger Agreement.

12. ACCOUNTING MATTERS. QAD-Delaware agrees that upon the Effective Time, the assets, liabilities, reserves and accounts of QAD-California and QAD-Delaware shall be taken up or continued on the books of QAD-Delaware in the amounts at which such assets, liabilities, reserves and accounts shall have been carried on the books of QAD-California and QAD-Delaware immediately prior to the Effective Time, subject to such adjustments, and such elimination of intercompany items, as may be appropriate to give effect to the Merger.

13. GOVERNING LAW. This Merger Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts entered into and to be performed wholly within the State of California, except to the extent that the laws of the State of Delaware are mandatorily applicable to the Merger.

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14. AMENDMENT. Subject to applicable law and subject to the rights of QAD-California's shareholders further to approve any amendment which would have a material adverse effect on such shareholders, this Merger Agreement may be amended, modified or supplemented by written agreement of the parties hereto at any time prior to the Effective Time with respect to any of the terms contained herein.

15. DEFERRAL OR ABANDONMENT. At any time prior to the Effective Time, this Merger Agreement may be terminated and the Merger may be abandoned or the time of consummation of the Merger may be deferred for a reasonable time by the Board of Directors of either QAD-California or QAD-Delaware, or both, notwithstanding approval of this Merger Agreement by the shareholders of QAD-California or the shareholders of QAD-Delaware, or both, if circumstances arise which, in the opinion of the Board of Directors of QAD-California or QAD-Delaware, make the Merger inadvisable or such deferral of the time of consummation advisable.

16. COUNTERPARTS. This Merger Agreement may be executed in any number of counterparts each of which when taken alone shall constitute an original instrument and when taken together shall constitute one and the same Agreement.

17. ASSURANCE. QAD-California and QAD-Delaware agree to execute any and all documents, and to perform such other acts, which may be necessary or expedient to further the purposes of this Merger Agreement.

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IN WITNESS WHEREOF, QAD-California and QAD-Delaware have caused this Merger Agreement to be signed by their respective duly authorized officers and delivered this 8th day of July, 1997.

QAD Inc.,
a California corporation

By: /s/ Pamela M. Lopker

Pamela M. Lopker
Chairman of the Board and President

ATTEST:

By: /s/ Karl F. Lopker

Karl F. Lopker
Secretary

QAD Inc.,
a Delaware corporation

By: /s/ Pamela M. Lopker

Pamela M. Lopker
Chairman of the Board and President

ATTEST:

By: /s/ Karl F. Lopker

Karl F. Lopker
Secretary

The Board of Directors
QAD Inc.

The audits referred to in our report dated April 11, 1997, included the related financial statement schedule for the years ended December 31, 1994 and 1995, the one month period ended January 31, 1996 and the year ended January 31, 1997, included in the registration statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the headings "Selected Consolidated Financial Data" and "Experts" in the prospectus.

KPMG PEAT MARWICK LLP

Los Angeles, California
July 10, 1997

CERTIFIED RESOLUTION

The following is a true and correct copy of a resolution of the Board of Directors of QAD Inc., a California corporation (the "Corporation") which was duly adopted pursuant to a Unanimous Written Consent of the Board of Directors of the Corporation dated May 30, 1997:

RESOLVED FURTHER, that each officer and director of the Corporation who may be required to sign and execute the Registration Statement or any amendment thereto or document in connection therewith (whether for and on behalf of the Corporation, or otherwise), be, and hereby is, authorized and empowered to execute a power of attorney appointing Karl F. Lopker, Pamela M. Lopker and Dennis R. Raney, or any one of them, his or her true and lawful attorneys-in-fact and agents to sign in his or her name, place and stead in any such capacity any and all amendments (including post-effective amendments) to the Registration Statement and any and all other documents in connection therewith, and to file the same with the SEC, each of said attorneys-in-fact to have the power and authority to do and perform, in the name and on behalf of such officers and directors who shall have executed such a power of attorney, every act whatsoever which such attorneys, or either of them, may deem necessary, appropriate or advisable to be done in connection therewith as fully as such officers and directors might or could do in person.

In WITNESS WHEREOF, the Corporation has caused this certificate to be duly executed by its Secretary this 8th day of July 1997.

QAD INC.

By: /s/ Karl F. Lopker

Karl F. Lopker,
Secretary