

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended March 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission file number 0-13801

QUALITY SYSTEMS, INC.  
(Exact name of Registrant as specified in its charter)

California  
(State or Other Jurisdiction of  
Incorporation or Organization)

95-2888568  
(I.R.S. Employer  
Identification No.)

17822 East 17th Street, Tustin, California  
(Address of Principal Executive Offices)

92780  
(Zip Code)

Registrant's telephone number, including area code: (714) 731-7171

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered:
Common Stock, par value \$.01 per share	NA

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

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

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of May 31, 2001: \$35,746,654.\*

Indicate the number of shares outstanding of each of the Registrant's classes of Common Stock as of May 31, 2001: 5,988,503.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of the Form 10-K is incorporated by reference from Registrant's Definitive Proxy Statement for its 2001 annual meeting which is to be filed with the Commission on or before July 29, 2001.

\* For purposes of this report, in addition to those shareholders which fall within the definition of "affiliates" under Rule 405 of the Securities Act of 1933, as amended, holders of ten percent or more of the Registrant's Common Stock are deemed to be affiliates.

PART I

Item 1. Business

Except for the historical information contained herein, the matters discussed in this Annual Report on Form 10-K, including discussions of the Registrant's product development plans, business strategies and market factors influencing the Registrant's results, are forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by the Registrant as a result of various factors, both foreseen and unforeseen, including, but not limited to, the Registrant's ability to continue to develop new products and increase systems sales in markets characterized by rapid technological evolution, consolidation within the Registrant's target marketplace and among the Registrant's competitors, and competition from larger, better capitalized competitors. Many other economic, competitive, governmental and technological factors could impact the Registrant's ability to achieve its goals. Interested persons are urged to review the risks described under "Item 1. Business. Risk Factors" and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as in the Registrant's other public disclosures and filings with the Securities and Exchange Commission.

Company Overview

Quality Systems, Inc. ("QSI") and its wholly-owned subsidiary, Clinitec International, Inc. ("Clinitec") d/b/a MicroMed Healthcare Information Systems,

Inc. ("MicroMed"), (collectively, the "Company") develop and market healthcare information systems that automate medical and dental group practices, physician hospital organizations ("PHOs"), management service organizations ("MSOs"), ambulatory care centers, community health centers, and medical and dental schools. In response to the growing need for more comprehensive, cost-effective information solutions for physician and dental practices, the Company's systems enable clients to redesign office workflow processes, improve productivity, reduce information processing and administrative costs, and utilize electronic medical records to store and access patient information. The Company's proprietary software systems cover a number of important practice elements including but not limited to general patient information, electronic medical records, appointment scheduling, billing, insurance claims submission and processing, eligibility verification, managed care plan implementation, referral management, treatment outcome studies, treatment planning, drug formularies, dental charting, and letter generation. Several of the Company's software systems may be operated remotely using thin client connectivity or a standard web browser. In addition to providing fully integrated software solutions to its clients, the Company offers comprehensive hardware and software installation services, maintenance and support services, and system training services.

The Company currently has a base of approximately 700 clients, with each client including between one and 500 physicians or dentists. The Company believes that as healthcare providers are increasingly required to reduce costs and maintain the quality of healthcare, the Company will be able to capitalize on its strategy of providing fully integrated information systems and superior client service.

QSI, a California corporation formed in 1974, was founded with an early focus on providing information systems and services for dental group practices. In the mid-1980's, QSI capitalized on the increasing focus on medical cost containment and further expanded its information processing systems to serve the medical market. Today, the Company has dedicated products serving both the medical and dental markets.

The Company's QSI Division develops and markets dental practice management and medical practice management software suites utilizing a UNIX(1) operating system. Its Clinical Product Suite ("CPS") utilizes a Windows NT(2) operating system and can be fully integrated with the Company's dental practice

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(1) UNIX is a registered trademark of AT&T Corporation.

(2) Microsoft Windows, Windows NT, Windows 95, Windows 98, and Windows 2000 are registered trademarks of Microsoft Corporation.

management applications. CPS incorporates a wide range of clinical tools including but not limited to periodontal charting and digital imaging of X-ray and inter-oral camera images as part of a complete electronic patient record. In addition, the QSI Division develops and markets the Company's QUIC product suite which incorporates a variety of products that enhance the connectivity between provider and payor, and provider and patient. The QSINet Application Services Provider ("ASP")/Internet product offering is also developed and marketed in this division. QSINet enables providers to extend patient appointment scheduling, electronic bill payment, and other functions to patients via the Internet.

QSI's MicroMed Division develops and sells proprietary electronic medical records software and practice management systems under the NextGen(R)(3) product name. Major product categories of the NextGen suite include Electronic Medical Records (NextGen(emr)), Enterprise Practice Management (NextGen(epm)), Enterprise Appointment Scheduling (NextGen(eas)), Enterprise Master Patient Index (NextGen(epi)), Managed Care, Electronic Data Interchange, System Interfaces, Internet Operability (NextGen(web)), and a Patient-centric and Provider-centric Web Portal Solution (NextMD.com(4)). The Company's enterprise practice management and electronic medical records software packages can run via private intranet or via the Internet in an ASP environment.

Enhancements to these products continued during fiscal 2001.

For the purposes of Statement of Accounting Standards ("SFAS") No. 131 "Disclosures About Segments of an Enterprise and Related Information" we have provided a breakdown of our business utilizing the management approach in the Notes to Consolidated Financial Statements No. 11 "Operating Segment Information."

#### Industry Background

To compete in the continually changing healthcare environment, providers are increasingly using technology to help maximize the efficiency of their business practices and to assist in enhancing patient care.

As the managed care environment continues to expand, more healthcare providers enter into contracts, often with multiple entities, which define the terms under which care is administered. The expansion in the number of managed care and third party payor organizations, as well as additional government regulation and changes in reimbursement models, has greatly increased the complexity of pricing, billing, reimbursement, and records management for medical and dental practices. To operate effectively, healthcare provider organizations must efficiently manage patient care and other information and workflow processes which increasingly extend across multiple locations and business entities.

In response, healthcare provider organizations have placed increasing demands on their information systems. Initially, these information systems automated financial and administrative functions. As it became necessary to manage patient flow processes, the need arose to integrate "back-office" data with such clinical information as patient test results and office visits. Particularly for larger organizations and group practices, the Company believes information systems must facilitate enterprise-wide management of patient information incorporating administrative, financial and clinical information from multiple entities. In addition, large healthcare organizations increasingly require information systems that can deliver high performance in environments with multiple concurrent computer users.

Many existing healthcare information systems were designed for limited administrative tasks such as billing and scheduling and can neither accommodate multiple computing environments nor operate effectively across multiple locations and entities. The Company believes as the healthcare industry continues to evolve, healthcare organizations will increasingly require systems that compile structured clinical information from multiple sources and enable measurement of treatment outcomes and management of clinical processes. Further, the Company believes that systems which integrate this patient clinical data with administrative, financial and other practice management data to maintain patient

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(3) NextGen is a registered trademark of MicroMed Healthcare Information Systems, Inc.  
(4) NextMD.com is a trademark of MicroMed Healthcare Information Systems, Inc.

flow while contributing to reduced costs and improved quality of care are best positioned to succeed in the evolving managed care environment. As healthcare organizations transition to new computer platforms and newer technologies, the Company believes such organizations will be migrating toward the implementation of enterprise-wide, patient-centric computing systems embedded with automated clinical patient records.

## Products

In response to the growing need for more comprehensive, cost-effective healthcare information solutions for physician and dental practices, the Company's systems provide its clients with the ability to redesign patient care and other workflow processes while improving productivity through facilitation of managed access to patient information. Utilizing the Company's proprietary software combined with proven third party hardware solutions, the Company's products enable the integration of a variety of administrative and clinical information operations. Leveraging more than 20 years of experience in the healthcare information services industry, the Company believes that it continues to distinguish its solutions by providing its clients with sophisticated, full-featured software systems along with comprehensive systems implementation, maintenance and support.

**Practice Management Systems.** The Company's products consist primarily of proprietary healthcare software applications together with third party hardware and other non-industry specific software. The systems range in capacity from one to hundreds of users, allowing the Company to address the needs of both small and large organizations. The systems are modular in design and may be expanded to grow with changing client requirements.

The Company's character-based practice management system is available in both dental and medical versions and primarily uses the IBM RS6000(5) central processing unit and IBM'S AIX(6) version of the UNIX operating system as a platform for its application software enabling a wide range of flexible and functional systems. The hardware components, as well as the requisite operating system licenses, are purchased from manufacturers or distributors of those components. QSI assembles and tests the hardware components and incorporates its software and other third party packages into completed systems tailored to accommodate particular client requirements. The Company continually evaluates the hardware components of its systems with a view toward utilizing hardware that is functional, reliable and cost-effective.

NextGen(epm) expands the Company's practice management system product line. NextGen(epm) has been developed using a graphical user interface ("GUI") client-server platform for compatibility with Windows 95, Windows 98, Windows 2000, and Windows NT operating systems and a relational database that is ANSI SQL-compliant. NextGen(epm) is scalable and includes a master patient index, enterprise-wide appointment scheduling with referral tracking, clinical support, and centralized or decentralized patient financial management based on either a managed care or fee-for-service model. The system's three-tiered architecture allows work to be performed on the database server, the application server and the client workstation.

To date, the Company generally has made hardware recommendations for NextGen(epm) to its clients based upon information provided by each client. Clients are responsible for the selection, installation, and integration of the hardware purchased from third party suppliers other than the Company.

The Company also offers practice management solutions for both dental and medical practices through the Internet. These products are marketed under the QSIInet and NextGen(web) trade names, respectively.

**Clinical Systems.** The Company's dental charting software system, the Clinical Product Suite (CPS), is a comprehensive solution designed specifically for the dental group practice environment. CPS integrates the dental practice management product with a computer-based clinical information system that incorporates a wide range of clinical tools, including:

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- (5) RS6000 is a registered trademark of International Business Machines Corporation.
- (6) AIX is a registered trademark of International Business Machines Corporation.

- o Electronic charting of dental procedures, treatment plans and existing conditions;
- o Periodontal charting via light-pen, voice-activation, or keyboard entry for full periodontal examinations and PSR scoring;
- o Digital imaging of X-ray and intra-oral camera images;
- o Computer-based patient education modules, viewable chair-side to enhance case presentation;
- o Full access to patient information, treatment plans, and insurance plans via a fully integrated interface with the Company's dental practice management product; and
- o Document and image scanning for digital storage and linkage to the electronic patient record.

The result is a comprehensive clinical information management system that helps practices save time, reduce costs, improve case presentation, and enhance the delivery of dental services and quality of care. Clinical information is managed and maintained electronically thus forming an electronic patient record that allows for the implementation of the "chartless" office.

CPS incorporates Windows-based client-server technology consisting of one or more file servers together with any combination of one or more desktop, laptop, or pen-based PC workstations. The file server(s) used in connection with CPS utilize(s) a Windows NT operating system and the hardware is typically a Pentium(7)-based single or multi-processor platform. Based on the server configuration chosen, CPS is scalable from one to hundreds of workstations. A typical configuration may also include redundant disk storage, magnetic tape units, intra- and extra-oral cameras, digital X-ray components, digital scanners, conventional and flat screen displays, and printers. The hardware components, including the requisite operating system licenses, are purchased from third party manufacturers or distributors either directly by the customer or by the Company for resale to the customer.

MicroMed provides software applications that are complementary to, and interface with, the Company's medical practice management offerings as well as many of the other leading practice management software systems on the market. The applications incorporated into the Company's practice management solutions and others such as scheduling, eligibility, billing and claims processing are augmented by clinical information captured by NextGen(emr), including services rendered and diagnoses used for billing purposes. The Company believes that it currently provides a comprehensive information management solution for the medical marketplace.

NextGen(emr) was developed with client-server architecture and a GUI utilizing Microsoft Windows 95, Windows 98, Windows 2000, or Windows NT on each workstation and either Windows NT, UNIX or Novell(8) on the server. NextGen(emr) maintains data using an industry standard relational database engine such as Microsoft SQL Server(9), INFORMIX(10) or Oracle(11). The system is scalable from one to hundreds of workstations.

NextGen(emr) stores and maintains clinical data including:

- o Data captured using user-customized input "templates";
- o Scanned or electronically acquired images, including X-rays and photographs;
- o Data electronically acquired through interfaces with clinical instruments;
- o Other records, documents or notes, including electronically captured handwriting and annotations; and
- o Digital voice recordings.

NextGen(emr) also offers a workflow module, prescription management, automatic document and letter generation, patient education, referral tracking, interfaces to billing and lab systems, physician alerts and reminders, and powerful reporting and data analysis tools.

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 (7) Pentium is a registered trademark of Intel Corporation.  
 (8) Novell is a registered trademark of Novell, Inc.  
 (9) Microsoft is a registered trademark and SQL Server is a registered trademark of Microsoft Corporation.  
 (10) INFORMIX is a registered trademark of Informix Corporation.  
 (11) Oracle is a registered trademark of Oracle Corporation.

NextGen(emr) is sold either as a combination of software and services, or as a turnkey system including computer hardware and requisite operating system software. Computer hardware for turnkey systems is purchased for resale by the Company from third party manufacturers or distributors.

The Company continued to enhance the NextGen(emr) application in fiscal 2001 to enable NextGen(emr) to be run via private intranet or the Internet in an ASP environment.

Connectivity Services. The Company makes available electronic data interchange ("EDI") capabilities and connectivity services to its customers. These capabilities and services facilitate the sharing of information between providers and payors as well as providers and patients to increase office efficiency, reduce processing time, and enhance collection of accounts receivable. The EDI/connectivity capabilities encompass direct interfaces between the Company's products and external third party systems, as well as transaction-based services. Services include:

- o Electronic claims submission through the Company's relationships with a number of national claims clearinghouses;
- o Electronic patient statements, appointment reminder cards and calls, recall cards, patient letters, and other correspondence;
- o Electronic insurance eligibility verification; and
- o Electronic posting of remittances from insurance carriers into the accounts receivable application.

Internet Applications. The Company maintains an Internet-based consumer health portal, NextMD.com. NextMD.com is a vertical portal for the healthcare industry, linking patients with their physicians, insurers, laboratories, and online pharmacies, while providing a centralized source of health-oriented information for both consumers and medical professionals. Patients whose physicians are linked to the portal are able to request appointments, send appointment changes or cancellations, receive test results on-line, request prescription refills, view and/or pay their statements, and communicate with their physicians, all in a secure, on-line environment. The Company's NextGen suite of information systems are or will be linked to NextMD.com, integrating a number of these features with physicians' existing systems.

The Company also provides a web-based application called QSINet which allows clients to securely access information from their practice management system via the Internet. This application also enables providers to offer their patients convenient services such as on-line appointment scheduling and electronic bill payment through the client's website, and posts this data directly to the client's existing practice management system.

#### Sales and Marketing

The Company sells and markets its products nationwide through a direct sales force. Sales staff typically make presentations to potential clients by demonstrating the system and its capabilities on the prospective client's premises. The Company's sales and marketing employees identify prospective clients through a variety of means, including referrals from existing clients, contacts at professional society meetings and seminars, trade journal advertising, direct mail advertising, and telemarketing.

The Company's sales cycle can vary significantly and typically ranges from three to twelve months from initial contact to contract execution. Systems are normally delivered to a customer within sixty days of receipt of a system order, and therefore, the Company does not believe data pertaining to backlog is meaningful. As part of the fees paid by its clients, the Company receives up-front licensing fees and a monthly or quarterly service fee based on system configuration.

Several clients have purchased the Company's practice management system and, in turn, are providing either time-share or billing services to single and group practice practitioners. Under the time-share or billing service agreements, the client provides the use of its system for a fee to one or more practitioners. Although the Company does not receive a fee directly from the distributor's customers, implementation of such arrangements has resulted in the purchase of additional system capacity by the distributor, as well as new system purchases made by the distributor's customers should such customers decide to perform the practice management functions in-house.

The Company continues to concentrate its sales and marketing efforts on medical and dental practices, professional schools, physician clinics, MSOs, PHOs, ambulatory care settings and community health centers.

MSOs and PHOs to which the Company has sold systems provide use of the Company's software to those group and single physician practices associated with the organization or hospital on either a service basis or by directing the Company to contract with those practices for the sale of stand-alone systems.

The Company has also entered into marketing assistance agreements with certain of its clients pursuant to which the clients allow the Company to demonstrate to potential clients the use of systems on the existing clients' premises. In addition, the Company has established a network of resellers for its systems. Through these arrangements the reseller markets and sells the Company's products and services to prospects in a defined market area or segment. These prospects are generally smaller healthcare facilities than those actively pursued by the Company. Resellers are compensated through a variety of contractual arrangements.

The Company from time to time assists prospective clients in identifying third party sources for financing the purchase of the Company's systems. The financing is typically obtained by the client directly from institutional lenders and typically takes the form of a loan from the institution secured by the system to be purchased or a leasing arrangement.

The Company has numerous clients and does not believe that the loss of any single client would have a material adverse effect on the Company. No client accounted for ten percent or more of net revenues during fiscal years ended March 31, 2001, 2000 or 1999.

#### Customer Service and Support

The Company believes its success is attributable in part to its customer service and support departments. The Company offers support to its clients seven days a week, 24 hours a day. Because most of the Company's installed systems have a dedicated computer port for dial-up remote access facilitating rapid response by technicians to system inquiries, most inquiries can be resolved without the need to dispatch technicians to the client location. These support services also provide the Company with the opportunity to monitor changes in each client's information processing requirements and to recommend the purchase of system hardware or software enhancements designed to satisfy these additional requirements.

The Company's client support staff is comprised of specialists who are knowledgeable in the areas of hardware and software technology as well as in the day-to-day operations of a group practice. System support activities range from correcting minor procedural problems in the client's system to performing complex database reconstructions or software updates. The Company's QSI Division also utilizes an automated online support system which assists clients in resolving minor problems and facilitates automated electronic retrieval of problems and symptoms following a client's call to the automated support system. Additionally, this online support system maintains a complete call record at both the client's facility and the Company.

The Company offers its clients support services for most system components, including hardware and software maintenance, for a fixed monthly or quarterly fee. The Company also subcontracts, in certain instances, with third party vendors to perform specific hardware maintenance tasks under the Company's direction.

#### Implementation and Training

The Company offers full service implementation and training services and believes that its system delivery, implementation and support services are key elements of successful client relationships. When a client signs a contract for the purchase of a system, a client manager/implementation specialist trained in medical and/or dental group practice procedures is assigned to oversee the installation of the system and the training of appropriate practice staff.

Before activation of the client's system, Company personnel typically convert, or assist in conversion of, the relevant client data onto the system. Data is typically converted electronically from the preceding computer system enabling a quick, cost-effective and accurate conversion. The system is then subjected to extensive testing which includes processing representative data using the client's system configuration.

Training may include a combination of computer assisted instruction ("CAI") for certain of the Company's products, remote training techniques and training classes conducted by Company staff at the client's office(s). CAI consists of workbooks, computer interaction and self-paced instruction. CAI is also offered to clients, for an additional charge, after the initial training program is completed for the purpose of training new and additional employees. Remote training allows a trainer at the Company office to train one or more people at a client site via telephone and computer connection, thus allowing an interactive and client-specific mode of training without the expense and time required for travel. In addition, the Company's on-line "help" documentation feature facilitates client training as well as ongoing support.

#### Competition

The markets for healthcare information systems are intensely competitive. The industry is highly fragmented and includes numerous competitors, none of which the Company believes dominates these markets. The electronic medical records and connectivity markets, in particular, are subject to rapid changes in technology, and the Company expects that competition in these market segments will increase as new competitors enter. The Company believes its principal competitive advantages are the features and capabilities of its products and services, its high level of customer support, and its extensive experience in the industry.

#### Product Enhancement and Development

The healthcare information management and computer software and hardware industries are characterized by rapid technological change requiring the Company to engage in continuing investments to update, enhance, and improve its systems. During fiscal years 2001, 2000, and 1999, the Company expended approximately \$5.1 million, \$4.9 million and \$4.8 million, respectively, on research and development activities including capitalized software amounts of \$1.1 million, \$1.1 million and \$1.2 million, respectively. In addition, many of the Company's product enhancements have resulted from software development work performed under contracts with its clients.

#### Employees

As of May 31, 2001, the Company employed 227 persons of which 223 were full-time employees. The Company believes that its future success depends in part upon recruiting and retaining qualified sales, marketing and technical personnel as well as other employees.

#### Risk Factors

Competition. The markets for healthcare information systems are intensely competitive, and the Company faces significant competition from a number of different sources. Several of the Company's competitors have significantly greater name recognition as well as substantially greater financial, technical, product development and marketing resources than the Company.

The Company competes in all of its markets with other major healthcare related companies, information management companies, systems integrators, and other software developers. Competitive pressures and other factors, such as new product introductions by the Company or its competitors, may result in price or market share erosion that could have a material adverse effect on the Company's business, results of operations and financial condition. Also, there can be no assurance that the Company's applications will achieve broad market acceptance or will successfully compete with other competing software products.



The Company's inability to make initial sales of its systems to either newly formed groups and/or healthcare providers that are replacing or substantially modifying their healthcare information systems could have a material adverse effect on the Company's business, results of operations and financial condition. If new systems sales do not materialize, the Company's maintenance revenues can be expected to decrease over time due to the combined effects of potential attrition of existing clients and a shortfall in new client additions.

**Fluctuation in Quarterly Operating Results.** The Company's revenues and operating results have fluctuated in the past, and may fluctuate in the future from quarter to quarter and period to period, as a result of a number of factors including, without limitation: the size and timing of orders from clients; the length of sales cycles and installation processes; the ability of the Company's clients to obtain financing for the purchase of the Company's products; changes in pricing policies or price reductions by the Company or its competitors; the timing of new product announcements and product introductions by the Company or its competitors; the availability and cost of system components; the financial stability of major clients; market acceptance of new products, applications and product enhancements; the Company's ability to develop, introduce and market new products, applications and product enhancements and to control costs; the Company's success in expanding its sales and marketing programs; deferrals of client orders in anticipation of new products, applications or product enhancements; changes in Company strategy; personnel changes; and general economic factors.

The Company's products are generally shipped as orders are received and accordingly, the Company has historically operated with minimal backlog. As a result, sales in any quarter are dependent on orders booked and shipped in that quarter and are not predictable with any degree of certainty. Furthermore, the Company's systems can be relatively large and expensive and individual systems sales can represent a significant portion of the Company's revenues for a quarter such that the loss or deferral of even one such sale can have a significant adverse impact on the Company's quarterly profitability.

Clients often defer systems purchases until the Company's quarter end, so quarterly results generally cannot be predicted and frequently are not known until the quarter has concluded.

The Company's sales are dependent upon client's initial decision to replace, or substantially modify its existing information system, and subsequently a decision as to which products and services to purchase. These are major decisions for healthcare providers, and accordingly, the sales cycle for the Company's systems can vary significantly and typically ranges from three to twelve months from initial contact to contract execution/shipment.

Because a significant percentage of the Company's expenses are relatively fixed, a variation in the timing of systems sales and installations can cause significant variations in operating results from quarter to quarter. As a result, the Company believes that interim period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as indications of future performance. Further, the Company's historical operating results are not necessarily indicative of future performance for any particular period.

The Company recognizes revenue pursuant to Statement of Position ("SOP") No. 97-2, "Software Revenue Recognition" ("SOP 97-2"). Additionally, in December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB 101 became effective for the Company in the third quarter of fiscal 2001.

There can be no assurance that application and subsequent interpretations of these pronouncements will not further modify the Company's revenue recognition policies, or that such modifications would not have a material adverse effect on the operating results reported in any particular quarter.

There can be no assurance that the Company will not be required to adopt changes in its licensing or services practices to conform to SOP 97-2 or SAB 101, or that such changes, if adopted, would not result in delays or cancellations of potential sales of the Company's products.

Due to all of the foregoing factors, it is possible that in some future quarter(s) the Company's operating results may be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would likely be materially adversely affected.

**Dependence on Principal Product and New Product Development.** The Company currently derives substantially all of its net revenues from sales of its healthcare information systems and related services. The Company believes that a primary factor in the market acceptance of its systems has been its ability to meet the needs of users of healthcare information systems. The Company's future financial performance will depend in large part on the Company's ability to continue to meet the increasingly sophisticated needs of its clients through the timely development, successful introduction and implementation of new and enhanced versions of its systems and other complementary products. The Company has historically expended a significant percentage of its net revenues on product development and believes that significant continuing product development efforts will be required to sustain the Company's growth.

There can be no assurance that the Company will be successful in its product development efforts, that the market will continue to accept the Company's existing products, or that new products or product enhancements will be developed and implemented in a timely manner, meet the requirements of healthcare providers, or achieve market acceptance. If new products or product enhancements do not achieve market acceptance, the Company's business, results of operations and financial condition could be materially adversely affected. At certain times in the past, the Company has also experienced delays in purchases of its products by clients anticipating the launch of new products by the Company. There can be no assurance that material order deferrals in anticipation of new product introductions will not occur.

**Technological Change.** The software market generally is characterized by rapid technological change, changing customer needs, frequent new product introductions, and evolving industry standards. The introduction of products incorporating new technologies and the emergence of new industry standards could render the Company's existing products obsolete and unmarketable. There can be no assurance that the Company will be successful in developing and marketing new products that respond to technological changes or evolving industry standards. New product development depends upon significant research and development expenditures which depend ultimately upon sales growth. Any material weakness in revenues or research funding could impair the Company's ability to respond to technological advances in the marketplace and to remain competitive. If the Company is unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, the Company's business, results of operations and financial condition may be materially adversely affected.

In response to increasing market demand, the Company is currently developing new generations of certain of its software products. There can be no assurance that the Company will successfully develop these new software products or that these products will operate successfully, or that any such development, even if successful, will be completed concurrently with or prior to introduction of competing products. Any such failure or delay could adversely affect the Company's competitive position or could make the Company's current products obsolete.

**Litigation.** The Company faces one Federal securities action (see "Item 3. Legal Proceedings."). At this time it is not reasonably possible to estimate the damage, or the range of damages, if any, that the Company might incur in connection with this action. However, the uncertainty associated with substantial unresolved litigation may have an adverse impact on the Company's business. In particular, such litigation could impair the Company's relationships with existing customers and its ability to obtain new customers. Defending such litigation may result in a diversion of management's time and attention away from business operations, which could have a material adverse effect on the Company's business, results of operations and financial condition. Such litigation may also have the effect of discouraging potential acquirers from bidding for the Company or reducing the consideration such acquirers would otherwise be willing to pay in connection with an acquisition.

There can be no assurance that such litigation will not result in liability in excess of its insurance coverage, that the Company's insurance will cover such claims or that appropriate insurance will continue to be available to the Company in the future at commercially reasonable rates.

Proprietary Technology. The Company is heavily dependent on the maintenance and protection of its intellectual property and relies largely on license agreements, confidentiality procedures, and employee nondisclosure agreements to protect its intellectual property. The Company's software is not patented and existing copyright laws offer only limited practical protection.

There can be no assurance that the legal protections and precautions taken by the Company will be adequate to prevent misappropriation of the Company's technology or that competitors will not independently develop technologies equivalent or superior to the Company's. Further, the laws of some foreign countries do not protect the Company's proprietary rights to as great an extent as do the laws of the United States and are often not enforced as vigorously as those in the United States.

The Company does not believe that its operations or products infringe on the intellectual property rights of others. However, there can be no assurance that others will not assert infringement or trade secret claims against the Company with respect to its current or future products or that any such assertion will not require the Company to enter into a license agreement or royalty arrangement with the party asserting the claim. As competing healthcare information systems increase in complexity and overall capabilities and the functionality of these systems further overlaps, providers of such systems may become increasingly subject to infringement claims. Responding to and defending any such claims may distract the attention of Company management and have a material adverse effect on the Company's business, results of operations and financial condition. In addition, claims may be brought against third parties from which the Company purchases software, and such claims could adversely affect the Company's ability to access third party software for its systems.

Ability to Manage Growth. The Company has in the past experienced periods of growth which have placed, and may continue to place, a significant strain on the Company's resources. The Company also anticipates expanding its overall software development, marketing, sales, client management and training capacity. In the event the Company is unable to identify, hire, train and retain qualified individuals in such capacities within a reasonable timeframe, such failure could have a material adverse effect on the Company. In addition, the Company's ability to manage future increases, if any, in the scope of its operations or personnel will depend on significant expansion of its research and development, marketing and sales, management, and administrative and financial capabilities. The failure of the Company's management to effectively manage expansion in its business could have a material adverse effect on the Company's business, results of operations and financial condition.

Dependence Upon Key Personnel. The Company's future performance also depends in significant part upon the continued service of its key technical and senior management personnel, many of whom have been with the Company for a significant period of time. The Company does not maintain key man life insurance on any of its employees. Because the Company has a relatively small number of employees when compared to other leading companies in the same industry, its dependence on maintaining its employees is particularly significant. The Company is also dependent on its ability to attract and retain high quality personnel, particularly in the areas of sales and applications development.

The industry is characterized by a high level of employee mobility and aggressive recruiting of skilled personnel. There can be no assurance that the Company's current employees will continue to work for the Company.

Loss of services of key employees could have a material adverse effect on the Company's business, results of operations and financial condition. Furthermore, the Company may need to grant additional stock options to key employees and provide other forms of incentive compensation to attract and retain such key personnel.

Product Liability. Certain of the Company's products provide applications that relate to patient clinical information. Any failure by the Company's products to provide accurate and timely information could result in claims against the Company. In addition, a court or government agency may take the position that the Company's delivery of health information directly, including through licensed practitioners, or delivery of information by a third party site that a consumer accesses through the Company's web sites, exposes the Company to malpractice or other personal injury liability for wrongful

delivery of healthcare services or erroneous health information. The Company maintains insurance to protect against claims associated with the use of its products, but there can be no assurance that its insurance coverage would adequately cover any claim asserted against the Company. A successful claim brought against the Company in excess of its insurance coverage could have a material adverse effect on the Company's business, results of operations and financial condition. Even unsuccessful claims could result in the Company's expenditure of funds in litigation and management time and resources.

Certain healthcare professionals who use the Company's Internet-based products will directly enter health information about their patients including information that constitutes a record under applicable law that the Company will store on the Company's computer systems. Numerous federal and state laws and regulations, the common law, and contractual obligations govern collection, dissemination, use and confidentiality of patient-identifiable health information, including:

- o State privacy and confidentiality laws;
- o The Company's contracts with customers and partners;
- o State laws regulating healthcare professionals;
- o Medicaid laws; and
- o The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and related rules proposed by the Health Care Financing Administration; and Health Care Financing Administration standards for Internet transmission of health data.

The U.S. Congress has been working to finalize proposed legislation that would establish a new federal standard for protection and use of health information. Any failure by the Company or by its personnel or partners to comply with any of these legal or other requirements may result in a material liability.

Although the Company has systems in place for safeguarding patient health information from unauthorized disclosure, these systems may not preclude claims against the Company for violation of applicable law or other requirements. Other third party sites or links that consumers access through the Company's web sites also may not maintain systems to safeguard this health information, or may circumvent systems the Company put in place to protect the information from disclosure. In addition, future laws or changes in current laws may necessitate costly adaptations to the Company's systems.

There can be no assurance that the Company will not be subject to product liability claims, that such claims will not result in liability in excess of its insurance coverage, that the Company's insurance will cover such claims or that appropriate insurance will continue to be available to the Company in the future at commercially reasonable rates. Such claims could have a material adverse affect on the Company's business, results of operations and financial condition.

Uncertainty in Healthcare Industry; Government Regulation. The healthcare industry is subject to changing political, economic and regulatory influences that may affect the procurement processes and operation of healthcare facilities. During the past several years, the healthcare industry has been subject to an increase in governmental regulation of, among other things, reimbursement rates and certain capital expenditures.

In the past, various legislators have announced that they intend to examine proposals to reform certain aspects of the U.S. healthcare system including proposals which may increase governmental involvement in healthcare, lower reimbursement rates and otherwise change the operating environment for the Company's clients. Healthcare providers may react to these proposals, and the uncertainty surrounding such proposals, by curtailing or deferring investments, including those for the Company's systems and related services. Cost-containment measures instituted by healthcare providers as a result of regulatory reform or otherwise could result in a reduction in the allocation of capital funds. Such a reduction could have an adverse effect on the Company's ability to sell its systems and related services. On the other hand, changes in the regulatory environment have increased and may continue to increase the needs of healthcare organizations for cost-effective data management and thereby enhance the overall market for healthcare management information systems. The Company cannot predict what impact, if any, such

proposals or healthcare reforms might have on the Company's business, financial condition and results of operations.

HIPAA mandates the use of national standards for transmissions of certain patient healthcare information, and prescribes security measures to protect the confidentiality of such information as well as other patient record privacy and security provisions within two years after the adoption of final regulations by the Department of Health and Human Services ("HHS"). These proposed regulations will establish new federal standards for privacy of health information. The Company anticipates that these regulations will directly affect the Company's products and services, but the Company cannot fully predict the impact at this time. The Company's intention is to modify its products and services as necessary to facilitate client compliance with the final regulations, but there can be no assurance that the Company will be able to do so in a timely manner. Achieving compliance with these regulations could be costly and distract management's attention and other resources from the Company's historical business, and any noncompliance by the Company could result in civil and criminal penalties. In addition, development of related federal and state regulations and policies on confidentiality of health information could negatively affect the Company's business.

In addition, the Company's software may be subject to regulation by the U.S. Food and Drug Administration (the "FDA") as a medical device. Such regulation could require the registration of the applicable manufacturing facility and software and hardware products; application of detailed recordkeeping and manufacturing standards; and FDA approval or clearance prior to marketing. An approval or clearance requirement could create delays in marketing, and the FDA could require supplemental filings or object to certain of these applications, the result of which could have a material adverse effect on the Company's business, financial condition and results of operations.

#### Item 2. Properties

The Company's principal administrative, data processing, marketing and development operations are located in approximately 15,000 square feet of leased space in Tustin, California, under a lease which expires in March 2002. In addition, the Company leases approximately 13,000 square feet of space in Santa Ana, California, to house its assembly and warehouse operations, approximately 15,000 square feet of space in Horsham, Pennsylvania, the principal office for the Company's MicroMed Division, approximately 8,000 square feet of space in Atlanta, Georgia, and an aggregate of 4,000 square feet of space in Florida, Kansas, Minnesota, Texas, Wisconsin, and Washington to house additional sales, training, development and service operations. These leases, including options, have expiration dates ranging from month-to-month to February 2006. The Company believes that its facilities are adequate for its current needs and that suitable additional or substitute space is available, if needed, at commercially reasonable rates.

#### Item 3. Legal Proceedings

On April 22, 1997, a purported class action entitled JOHN P. CAVENY v. QUALITY SYSTEMS, INC., ET AL. was filed in the Superior Court of the State of California for the County of Orange, in which Mr. Caveny, on behalf of himself and all others who purchased the Company's Common Stock between June 26, 1995 and July 3, 1996, alleges that the Company, and Sheldon Razin, Robert J. Beck, Gregory S. Flynn, Abe C. LaLande, Donn Neufeld, Irma G. Carmona, John A. Bowers, Graeme H. Frehner, and Gordon L. Setran (all of the foregoing individuals were either officers, directors or both during the period from June 26, 1995 through July 3, 1996), as well as other defendants not affiliated with the Company, violated California Corporations Code Sections 25400 and 25500, California Civil Code Sections 1709 and 1710, and California Business and Professions Code Sections 17200 et. seq., by issuing positive statements about the Company that allegedly were knowingly false, in part, in order to assist the Company and the individual defendants in selling Common Stock at an inflated price in the Company's March 5, 1996 public offering and at other points during the class period. The complaint seeks compensatory and punitive damages in unspecified amounts, disgorgement, declaratory and injunctive relief, and attorneys' fees.

The Company and the other named defendants successfully demurred to the plaintiffs' claim under California Civil Code Sections 1709 and 1710, and that claim, which served as the only basis for plaintiffs' request for punitive damages, has been dismissed from both actions.

On January 25, 1999, the court denied plaintiffs' motion to certify the class representative and class legal counsel. Plaintiffs appealed that decision as to class legal counsel. On February 25, 2000, the Fourth District Court of Appeals affirmed the order disqualifying the class legal counsel. On May 9, 2000, the Court of Appeals issued its Remittur certifying its decision as final.

In May 2000, plaintiffs associated in additional class legal counsel, and moved for approval by the court. Upon defendants' objection, the court on August 17, 2000, denied plaintiffs' motion, and ordered plaintiffs to retain new class counsel.

At the end of November 2000, the plaintiffs retained new class counsel who substituted in for plaintiffs' previous class counsel. The Company and the other named defendants did not oppose plaintiffs' motion for approval of the new class counsel. On January 24, 2001, the court granted the motion to certify class legal counsel.

On March 27, 2001, the court approved a notice of class certification to be mailed to shareholders who are potential class members. Between April 9, 2001 and May 9, 2001, class notice was mailed to potential class members.

Merits-related discovery in the action had been stayed pending the appointment of class counsel. In March 2001, the plaintiffs requested that documents be produced informally. The defendants have produced documents informally for plaintiffs' review. The court has entered a stipulated protective order governing discovery in the action. Counsel for plaintiffs and defendants intend to meet to discuss the plaintiffs' review of the informal document production at or around the time that the parties appear in court for the next status conference on July 30, 2001.

In Management's opinion the outcome of this case is uncertain, and therefore no accrual has been made to the financial statements.

On May 14, 1997, a second purported class action entitled WENDY WOO v. QUALITY SYSTEMS, INC., ET AL. was filed in the same court, essentially repeating the allegations in the Caveny lawsuit and seeking identical relief. This action has for all purposes been consolidated with the Caveny action.

On March 23, 1999, a purported class action and derivative complaint entitled IRVING ROSENZWEIG v. SHELDON RAZIN, ET AL. was filed in the Superior Court of the State of California for the County of Orange, in which Mr. Rosenzweig, on behalf of himself and all non-director shareholders, and derivatively on behalf of the Company, alleges that Sheldon Razin, John Bowers, William Bowers, Patrick Cline, Janet Razin and Gordon Setran (all of the foregoing individuals were directors of the Company) breached their fiduciary duties by allegedly entrenching themselves in their positions of control, failing to ensure that third party offers involving the Company were fully and fairly considered, and/or failing to conduct a reasonable inquiry to assure the maximization of shareholder value. The complaint sought declaratory and injunctive relief, an accounting of monetary damages allegedly suffered by plaintiff and the purported class, and attorneys' fees. Defendants demurred to each of the causes of action alleged in the complaint and the court sustained those demurrers with leave to amend in December 1999. Rather than file an amended complaint, plaintiff filed a motion for attorney's fees. Defendants, in turn, filed a motion to dismiss the action for failure to file an amended pleading within the time limit specified by the court.

The parties agreed to a settlement of action and stipulated to a final judgment and order which was entered by the court on May 15, 2000, at which time the action was dismissed. The final judgment and order provided for a dismissal of the action with prejudice, releases given to each of the defendants, and payment of the nominal sum of \$100,000 (paid by the Company's directors and officers liability insurance company) in full settlement of plaintiff's motion for attorney's fees.

The settlement further expressly provided that it did not constitute an admission of any liability of defendants, which defendants continue to vigorously deny.

The Company is a party to various other legal proceedings incidental to its business, none of which are considered by the Company to be material.

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

No matter was submitted to a vote of security holders during the fourth quarter of fiscal year 2001.

Executive Officers of the Company

The executive officers of the Company as of May 31, 2001 were as follows:

Name	Age	Position
Louis E. Silverman	42	President, Chief Executive Officer
Patrick B. Cline	40	President, MicroMed Healthcare Information Systems Division
Greg Flynn	43	Executive Vice President and General Manager of QSI Division
Paul Holt	35	Chief Financial Officer, Secretary

Executive officers of the Company are elected by, and serve at the discretion of, the Board of Directors. Additional information regarding the Company's executive officers is set forth below.

Louis E. Silverman was appointed President and Chief Executive Officer of the company on July 31, 2000. Mr. Silverman was previously Chief Operations Officer of CorVel Corp., a \$200 million publicly traded national managed care services and technology firm with headquarters in Irvine, California. Mr. Silverman holds a Master of Business Administration degree from Harvard Graduate School of Business Administration and a Bachelor of Arts degree from Amherst College.

Patrick B. Cline currently serves as president of the Company's MicroMed Healthcare Information Systems Division. He served as the Company's Interim Chief Executive Officer for the April - July 2000 period. Mr. Cline was a co-founder of Clinitec and has served as its President since its inception in January 1994. Prior to co-founding Clinitec, Mr. Cline served, from July 1987 to January 1994, as Vice President of Sales and Marketing with Script Systems, a subsidiary of InfoMed, a healthcare information systems company. From January 1994 to May 1994, after the founding of Clinitec, Mr. Cline continued to serve, on a part time basis, as Script Systems' Vice President of Sales and Marketing. Mr. Cline has held senior positions in the healthcare information systems industry since 1981.

Greg Flynn has served as the Company's General Manager since April 2000 and as Executive Vice President since August 1998 after serving as Vice President of Sales and Marketing from January 1996 to August 1998. Prior to January 1996, Mr. Flynn served as Vice President Administration since June 1992. In these capacities, Mr. Flynn has been responsible for numerous functions related to the ongoing management of the Company and sales. Previously, Mr. Flynn served as the Company's Vice President Corporate Communications. Since joining the Company in January 1982, Mr. Flynn has held a variety of increasingly responsible management positions within the organization. He holds a B.A. degree in English from the University of California, Santa Barbara.

Paul Holt was appointed Chief Financial Officer in November 2000. Mr. Holt has served as the Company's Contoller from January 2000 to May 2000 and was appointed interim Chief Financial Officer in May 2000. Prior to joining the Company, Mr. Holt was the Contoller of Sierra Alloys Co., Inc., a titanium metal manufacturing company from August 1999 to December 1999. From May 1997 to July 1999, he was Contoller of Refrigeration Supplies Distributor, a wholesale distributor and manufacturer of refrigeration supplies and heating controls. From March 1995 to April 1997 he was Assistant Contoller of Refrigeration Supplies Distributor. Mr. Holt is a Certified Public Accountant and holds an M.B.A. from the University of Southern California and a B.A. in Economics from the University of California, Irvine.

## PART II

## Item 5. Market for Company's Common Equity and Related Stockholder Matters

The Company's Common Stock is traded on the NASDAQ National Market under the symbol "QSII". The following table sets forth for the quarters indicated the high and low sales prices as reported by NASDAQ. The quotations reflect inter-dealer prices, without retail markup, markdown, or commissions, and may not necessarily represent actual transactions.

Quarter Ended	High	Low
June 30, 1999	\$ 6.56	\$ 3.75
September 30, 1999	\$ 8.38	\$ 5.63
December 31, 1999	\$ 7.75	\$ 5.88
March 31, 2000	\$ 18.75	\$ 6.75
June 30, 2000	\$ 15.25	\$ 6.50
September 30, 2000	\$ 9.75	\$ 6.75
December 31, 2000	\$ 8.27	\$ 6.69
March 31, 2001	\$ 11.13	\$ 7.76

At May 31, 2001, there were approximately 130 holders of record of the Company's Common Stock. The Company estimates the number of beneficial holders of its Common Stock to be in excess of 1,300.

Through May 31, 2001, the Company has not paid cash dividends on shares of its Common Stock. The Company anticipates that for the foreseeable future, all earnings, if any, will be retained for use in the Company's business and it does not anticipate paying any cash dividends in the future. Payment of future dividends, if any, will be at the discretion of the Company's Board of Directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

## Item 6. Selected Financial Data

The following selected financial data with respect to the Company's Consolidated Statements of Income Data for each of the five years in the period ended March 31, 2001 and the Consolidated Balance Sheet Data as of the end of each such fiscal year are derived from the audited financial statements of the Company. The following information should be read in conjunction with the Consolidated Financial Statements of the Company and the related notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Income." included elsewhere herein.



Consolidated Statements of operations Data  
(In thousands, except for per share data)

	Year Ended March 31,				
	2001	2000	1999	1998	1997
Net Revenues	\$ 39,936	\$ 36,373	\$ 33,816	\$ 31,216	\$ 20,127
Cost of Products and Services	17,283	16,395	15,834	13,509	10,089
Gross Profit	22,653	19,978	17,982	17,707	10,038
Selling, General and Administrative Expenses	13,585	12,645	13,495	12,485	7,736
Research and Development Costs	4,081	3,726	3,603	3,072	1,978
Purchased In-Process Research and Development(1)	--	--	--	10,200	8,300
Income (Loss) from Operations(2)	4,987	3,607	884	(8,050)	(7,976)
Investment Income	1,032	759	413	971	1,285
Income (Loss) before Provision for (Benefit from) Income Taxes(2)	6,019	4,366	1,297	(7,079)	(6,691)
Provision for (Benefit from) Income Taxes(3)	2,510	1,862	713	(2,463)	784
Net Income (Loss)(2)	\$ 3,509	\$ 2,504	\$ 584	\$ (4,616)	\$ (7,475)
Net Income (Loss) per Share, Basic and Diluted(2)	\$ 0.57	\$ 0.40	\$ 0.09	\$ (0.77)	\$ (1.26)
Weighted Average Shares Outstanding, Basic	6,130	6,208	6,176	5,981	5,937
Weighted Average Shares Outstanding, Diluted	6,203	6,261	6,185	5,981	5,937

(1) In May 1996, the Company acquired Clinitec which was treated as a purchase transaction for accounting purposes. In connection with this treatment, the Company incurred an \$8.3 million charge for purchased in-process research and development during the year ended March 31, 1997.

In May 1997, the Company acquired MicroMed which was treated as a purchase transaction for accounting purposes. In connection with this treatment, the Company incurred a \$10.2 million charge for purchased in-process research and development during the year ended March 31, 1998.

(2) Includes a charge of \$10.2 million and \$8.3 million for purchased in-process research and development for the years ended March 31, 1998 and 1997, respectively. Excluding the charge, on a pro forma basis, income from operations and income before provision for (benefit from) income taxes would have been \$2.2 million and \$3.1 million, respectively, for fiscal 1998 and \$324,000 and \$1.6 million, respectively for fiscal 1997. The income tax benefit related to the charge for purchased in-process research and development for the years ended March 31, 1998 and 1997 was \$3.9 million and \$0, respectively. Excluding the charge and related income tax benefit, on a pro forma basis, net income and basic and diluted income per share would have been \$1.7 million, \$0.29 and \$0.28, respectively, for fiscal 1998 and \$825,000, \$0.14 and \$0.14, respectively, for fiscal 1997.

(3) The provision for income taxes for the year ended March 31, 1997 differs from the Company's combined Federal and State statutory rates primarily due to the non-deductible charge for purchased in-process research and development incurred in connection with the acquisition of Clinitec in May 1996.

Consolidated Balance Sheet Data  
(in thousands)

	2001	2000	March 31, 1999	1998	1997
Cash and Cash Equivalents and Short-Term Investments	\$ 18,729	\$ 16,169	\$ 14,441	\$ 17,080	\$ 22,735
Working Capital	24,196	21,332	18,166	15,453	25,613
Total Assets	44,883	44,136	40,218	40,916	37,866
Total Liabilities	10,996	12,053	10,554	13,475	5,596
Shareholders' Equity	\$ 33,887	\$ 32,083	\$ 29,664	\$ 27,441	\$ 32,270

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Except for the historical information contained herein, the matters discussed in this Annual Report on Form 10-K, including discussions of the Company's product development plans, business strategies and market factors influencing the Company's results, are forward-looking statements that involve certain risks and uncertainties. Actual results may differ from those anticipated by the Company as a result of various factors, both foreseen and unforeseen, including, but not limited to, the Company's ability to continue to develop new products and increase systems sales in markets characterized by rapid technological evolution, consolidation, and competition from larger, better capitalized competitors. Many other economic, competitive, governmental and technological factors could impact the Company's ability to achieve its goals, and interested persons are urged to review the risks described in "Item 1. Business. Risk Factors" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth below, as well as in the Company's other public disclosures and filings with the Securities and Exchange Commission.

The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and related notes thereto included elsewhere herein. Historical results of operations, percentage margin fluctuations and any trends that may be inferred from the discussion below are not necessarily indicative of the operating results for any future period.

Results of Operations

The following table sets forth for the periods indicated the percentage of net revenues represented by each item in the Company's Consolidated Statements of Operations.

	Year Ended March 31,		
	2001	2000	1999
Net Revenues:			
Sales of computer systems, upgrades and supplies	49.9%	52.9%	55.8%
Maintenance and other services	50.1	47.1	44.2
Cost of Products and Services	100.0	100.0	100.0
	43.3	45.1	46.8
Gross Profit	56.7	54.9	53.2
Selling, General and Administrative Expenses	34.0	34.8	39.9
Research and Development Costs	10.2	10.2	10.7
Income from Operations	12.5	9.9	2.6
Investment Income	2.6	2.1	1.2
Income before Provision for Income Taxes	15.1	12.0	3.8
Provision for Income Taxes	6.3	5.1	2.1
Net Income	8.8%	6.9%	1.7%

For the Years Ended March 31, 2001 and 2000

For the year ended March 31, 2001, the Company's net income was \$3,509,000 or \$0.57 per share on a basic and diluted basis. In comparison, the Company earned \$2,504,000 or \$0.40 per share on a basic and diluted basis in the year ended March 31, 2000. The increase in net income was achieved through a combination of an increase in revenue from software systems sales, maintenance, and other services along with an increase in the gross profit margin associated with software systems, maintenance and other services. Also, operating expenses grew at a lesser rate than revenues and gross margin.

Net Revenues. Net revenues for the year ended March 31, 2001 increased 9.8% to \$39.9 million from \$36.4 million for the year ended March 31, 2000. Sales of computer systems, upgrades and supplies increased 3.6% to \$19.9 million from \$19.2 million while net revenues from maintenance and other service grew 16.8% to \$20.0 from \$17.1 million during the comparable prior period. The increase in net revenues from sales of computer systems, upgrades and supplies was principally due to increased sales of the Company's NextGen(epm) and NextGen(emr) products, offset by a decrease in sales of new systems in the

Company's QSI Division. The increase in maintenance and other services net revenue resulted primarily from the Company's increased client base together with an increase in revenues generated from the Company's EDI services. Revenue from the Company's EDI services increased 37.2% to \$5.2 million for the year ended March 31, 2001, compared to \$3.8 million in the year ended March 31, 2000.

Cost of Products and Services. Cost of products and services for the year ended March 31, 2001 increased 5.4% to \$17.3 million from \$16.4 million for the year ended March 31, 2000, while the cost of products and services as a percentage of net revenues decreased to 43.3% compared to 45.1% during the comparable periods. The decrease in cost of products and services as a percentage of net revenues resulted from the effects of the increase in maintenance and other services revenues, and a decrease in the hardware content of new system sales. Margins on new system sales are inversely proportional to the relative level of hardware content. The relative level of hardware content in new systems sales fluctuates from period to period. The effect of the above-mentioned items was slightly offset by an increase in revenue from EDI services which yields a lower gross margin than other products and services.

Selling, General and Administrative. Selling, general and administrative expenses for the year ended March 31, 2001 increased 7.4% to \$13.6 million from \$12.6 million, while decreasing on a percentage of revenues basis from 34.8% to 34.0% for the respective fiscal years. These numbers were driven primarily by an increase in the Company's reserve for bad debts and limited increases in most other SG&A expense categories.

Research and Development Costs. Research and development costs for the year ended March 31, 2001 increased 9.5% to \$4.1 million from \$3.7 million for the year ended March 31, 2000. The increase is primarily the result of increased research and development efforts at MicroMed. Research and development costs as a percentage of net revenues remained constant at 10.2% for the respective fiscal years.

Investment Income. Investment income for the year ended March 31, 2001 increased 36.0% to \$1,032,000 from \$759,000 for the year ended March 31, 2000. Contributing to the increase in investment income was an increase in average funds available for investment during the year ended March 31, 2001 combined with an increase in average interest rates compared to the year ended March 31, 2000.

Provision for Income Taxes. The provision for income taxes for the year ended March 31, 2001 was \$2,510,000 as compared to \$1,862,000 for the year ended March 31, 2000. The provision for income taxes for the years ended March 31, 2001 and 2000 respectively, differ from the combined statutory rates primarily due to the effect of varying state tax rates together with the impact of non-deductible amortization of certain intangible assets acquired in the May 1996 acquisition of Clinitec.

For the Years Ended March 31, 2000 and 1999

For the year ended March 31, 2000, the Company's net income was \$2,504,000 or \$0.40 per share on a basic and diluted basis. In comparison, the Company earned \$584,000 or \$0.09 per share on a basic and diluted basis in the year ended March 31, 1999. The increase in net income was achieved through a combination of an increase in revenue from software systems sales, maintenance, and other services along with a reduction in selling, general and administrative expenses. Selling, general and administrative expenses declined due to the integration of the Company's two subsidiaries, Clinitec and MicroMed. For the year ended March 31, 2000, revenue increased 7.6% to \$36.4 million compared to \$33.8 million in the year ended March 31, 1999. Selling, general and administrative expenses declined 6.3% to \$12.6 million in the year ended March 31, 2000 compared to \$13.5 million in the year ended March 31, 1999.

Net Revenues. Net revenues for the year ended March 31, 2000 increased 7.6% to \$36.4 million from \$33.8 million for the year ended March 31, 1999. Sales of computer systems, upgrades and supplies increased 2.0% to \$19.2 million from \$18.9 million while net revenues from maintenance and other service grew 14.6% to \$17.1 from \$14.9 million during comparable periods. The increase in net revenues from sales of computer systems, upgrades and supplies was principally due to increased sales of the Company's Clinical Product Suite, NextGen(epm) and NextGen(emr) products, offset by a decrease in sales of the Company's dental practice management product. The increase in maintenance and other services net

revenue resulted primarily from the Company's increased client base together with an increase in revenues generated from the Company's EDI services. Revenue from the Company's EDI services increased 37.6% to \$3.8 million for the year ended March 31, 2000 compared to \$2.8 million in the year ended March 31, 1999.

**Cost of Products and Services.** Cost of products and services for the year ended March 31, 2000 increased 3.5% to \$16.4 million from \$15.8 million for the year ended March 31, 1999 while the cost of products and services as a percentage of net revenues decreased to 45.1% compared to 46.8% during the comparable periods. The decrease in cost of products and services as a percentage of net revenues resulted from a combination of: the effects of the increase of maintenance and other services revenues, a change in the mix of new systems sales toward systems with lower hardware content, a leveling out of product development, customer service, support and training costs, and an increase in the cost of EDI services. In the year ended March 31, 2000, the Company was able to leverage its existing infrastructure on to a higher level of computer systems, upgrades and supplies sales. This contributed to the reduction in cost of products and services as a percentage of revenue during the year ended March 31, 2000. Also, new computer systems sales in the year ended March 31, 2000 had a lower relative level of hardware content compared to the year ended March 31, 1999. Margins on system sales are inversely proportional to the relative level of hardware content which fluctuates from period to period. The effect of the above-mentioned items was slightly offset by an increase in revenue from EDI services which yields a lower gross margin than other products and services.

**Selling, General and Administrative.** Selling, general and administrative expenses for the year ended March 31, 2000 decreased 6.3% to \$12.6 million from \$13.5 million. The decrease in selling, general and administrative expenses was primarily the result of the integration of the Company's Clinitec and MicroMed subsidiaries along with a reduction in bad debt expense for the year ended March 31, 2000 compared to the year ended March 31, 1999.

Selling, general and administrative expenses as a percentage of net revenue declined to 34.8% for the year ended March 31, 2000 compared to 39.9% in the year ended March 31, 1999.

**Research and Development Costs.** Research and development costs for the year ended March 31, 2000 increased 3.4% to \$3.7 million from \$3.6 million for the year ended March 31, 1999. The increase is the result of increased research and development efforts by Clinitec and MicroMed. Research and development costs as a percentage of net revenues decreased to 10.2% as compared to 10.7% for the respective fiscal years as a result of the effect of costs associated with the increased research and development efforts growing at a proportionately lower rate than net revenues during the comparable years.

**Investment Income.** Investment income for the year ended March 31, 2000 increased 83.8% to \$759,000 from \$413,000 for the year ended March 31, 1999. During the year ended March 31, 1999, the Company liquidated certain investments and incurred a loss of \$241,000. Also contributing to the comparative increase in investment income was an increase in average funds available for investment during the year ended March 31, 2000.

**Provision for Income Taxes.** The provision for income taxes for the year ended March 31, 2000 was \$1,862,000 as compared to \$713,000 for the year March 31, 1999. The provision for income taxes for the years ended March 31, 2000 and 1999, differ from the combined statutory rates primarily due to the effect of varying state tax rates together with the impact of non-deductible amortization of certain intangible assets acquired in the May 1996 acquisition of Clinitec.

#### Liquidity and Capital Resources

Cash and cash equivalents increased \$2.5 million in the year ended March 31, 2001 after increasing by \$1.7 million in the year ended March 31, 2000 and declining by \$1.9 million in the year ended March 31, 1999. The decreases in cash and cash equivalents in fiscal 1999 was primarily a result of payments made in connection with the MicroMed acquisition.

Net cash provided by operating activities was \$6.1 million, \$3.6 million and \$3.3 million for the years ended March 31, 2001, 2000 and 1999, respectively. Net cash provided by operations for the year ended March 31, 2001 consisted principally of net income before depreciation, amortization and provision for bad debts, and an increase in accounts payable offset by a decrease in income taxes payable and an increase in gross accounts receivable. Net cash provided by operations for the year ended March 31, 2000 consisted primarily of net income before depreciation and amortization and increases in deferred service revenue, offset by an increase in gross accounts receivable and a decrease in accounts payable.

Net cash used in investing activities for the years ended March 31, 2001, 2000, and 1999 was \$1.9 million, \$1.8 million, and \$5.1 million, respectively. Net cash used in investing activities for the years ended March 31, 2001 and 2000 was principally composed of investments in capitalized software and equipment and improvements. Net cash used in investing activities for the year ended March 31, 1999 was principally impacted by the \$3.8 million paid in connection with the MicroMed acquisition. Net cash used for additions to equipment, improvements and capitalized software for the years ended March 31, 2001, 2000 and 1999 were \$1.8 million, \$1.7 million and \$1.7 million respectively. There were no material short-term investment sales or purchases during the years ended March 31, 2001 and 2000. Net cash used in investing activities for the year ended March 31, 1999 were offset in part by cash provided from net sales of short-term investments of \$467,000.

Net cash used in financing activities for the years ended March 31, 2001 and 2000 was \$1,703,000 and \$86,000, respectively, which includes \$1,864,000 and \$111,000 used in each fiscal year to repurchase 235,900 shares and 17,400 shares, respectively, of the Company's Common Stock. Net cash used in financing activities for the years ended March 31, 2001, 2000 and 1999 also includes the proceeds from the exercise of employee stock options.

The Company has no significant capital commitments and currently anticipates that additions to equipment and improvements for fiscal 2002 will be comparable to fiscal 2001.

At March 31, 2001, the Company had cash and cash equivalents of \$18.5 million and short-term investments of \$258,000. The Company believes that its cash and cash equivalents and short-term investments on hand at March 31, 2001, together with the cash flows from operations, if any, will be sufficient to meet its working capital and capital expenditure requirements for the next year.

#### Item 7A. Qualitative and Quantitative Disclosures About Market Risk

The Company has a significant amount of cash and short-term investments with maturities less than three months. This cash portfolio exposes the Company to interest rate risk as short-term investment rates can be volatile. Given the short-term maturity structure of the Company's investment portfolio, the Company believes that it is not subject to principal fluctuations and the effective interest rate of the Company's portfolio tracks closely to various short-term money market interest rate benchmarks.

#### Item 8. Financial Statements and Supplementary Data

The Financial Statements of the Company identified in the Index to Financial Statements appearing under "Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K." of this report are incorporated herein by reference to Item 14.

#### Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Company

Except for information concerning the Company's executive officers which is included under the caption "Executive Officers of the Company" following Part I, Item 4 of this report, the information required by Item 10 is incorporated herein by reference from the Company's definitive proxy statement scheduled to be filed with the Securities and Exchange Commission on or before July 29, 2001 for the Company's 2001 annual shareholders' meeting.

Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference from the Company's definitive proxy statement scheduled to be filed with the Securities and Exchange Commission on or before July 29, 2001 for the Company's 2001 annual shareholders' meeting.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by Item 12 is incorporated herein by reference from the Company's definitive proxy statement scheduled to be filed with the Securities and Exchange Commission on or before July 29, 2001 for the Company's 2001 annual shareholders' meeting.

Item 13. Certain Relationships and Related Transactions

The information required by Item 13 is incorporated herein by reference from the Company's definitive proxy statement scheduled to be filed with the Securities and Exchange Commission on or before July 29, 2001 for the Company's 2001 annual shareholders' meeting.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

		Page
		----
(a) 1. Index to Financial Statements		
Independent Auditors' Report		F-1
Consolidated Balance Sheets at March 31, 2001 and 2000		F-2
Consolidated Statements of Income and Comprehensive Income for the Years Ended March 31, 2001, 2000 and 1999		F-3
Consolidated Statements of Shareholders' Equity for the Years Ended March 31, 2001, 2000 and 1999		F-3
Consolidated Statements of Cash Flows for the Years Ended March 31, 2001, 2000 and 1999		F-4
Notes to Financial Statements		F-5
2. Financial Statement Schedule		
Schedule II - Valuation and Qualifying Accounts		F-15
3. Exhibits		
Exhibit Number	Description	Sequential Page Number
-----	-----	-----
3.1	Articles of Incorporation of the Company, as amended, are hereby incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended March 31, 1984, File No. 2-80056.	
3.2	Bylaws of the Company, as amended, are hereby incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1, File No. 2-80056.	
3.3	Certificate of Amendment of Bylaws of the Company is hereby incorporated by reference to Exhibit 3.2.1 to the Company's Registration Statement on Form S-1, File No. 333-00161.	
3.4	Text of Sections 2 and 3 of Article II of the Bylaws of the Company is hereby incorporated by reference to Exhibit 3.2.2 to the Company's Quarterly report on Form 10-QSB for the period Ended December 31, 1996, File No. 0-13801.	
3.5	Certificate of Amendment of Bylaws of the Company, incorporated by reference to Exhibit 3.2.3 to the Company's Annual Report on Form 10-K for the year ended March 31, 2000, File No. 0-13801.	
10.2*	1989 Incentive Stock Option Plan is hereby incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 33-31949.	
10.2.1*	Form of Incentive Stock Option Agreement is hereby incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, File No. 333-00161.	
10.2.2*	Form of Non-Qualified Stock Option Agreement is hereby incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1, File No. 333-00161.	
10.3*	Form of Incentive Stock Option Agreement is hereby incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1, File No. 2-80056.	
10.4*	1993 Deferred Compensation Plan, is hereby incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 1994, File No. 0-13801.	

Exhibit Number -----	Description -----	Sequential Page Number -----
10.4.2*	Profit Sharing and Retirement Plan, as amended, is hereby incorporated by reference to Exhibit 10.4.2 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 1994, File No. 0-13801.	
10.4.3*	Profit Sharing and Retirement Plan, as amended, amendments No. 2 and 3, are hereby incorporated by reference to Exhibit 10.4.3 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 1996, File No. 0-13801.	
10.5	Series "A" Convertible Preferred Stock Purchase Agreement, as amended, dated April 21, 1995 between the Company and Clinitec International, Inc., is hereby incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB for the year ended March 31, 1995, File No. 0-13801.	
10.6	Form of Indemnification Agreement is hereby incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1, File No. 333-00161.	
10.7	Agreement and Plan of Merger, dated May 16, 1996, by and among Quality Systems, Inc., CII Acquisition Corporation, Clinitec International, Inc. and certain shareholders of Clinitec International, Inc. and certain exhibits is hereby incorporated by reference to Exhibit 2 to the Company's Current Report on Form 8-K, dated May 17, 1996 and filed May 30, 1996.	
10.8	Asset Purchase Agreement, dated May 15, 1997, by and among MicroMed Healthcare Information Systems, Inc., MHIS Acquisition Corp., Quality Systems, Inc., and certain shareholders of MicroMed Healthcare Information Systems, Inc. is hereby incorporated by reference to Exhibit 2 of Company's Current Report on Form 8-K, dated May 15, 1997 and filed May 29, 1997, File No. 0-13801.	
10.9*	1998 Employee Stock Contribution Plan is hereby incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 333-63131.	
10.10*	1998 Stock Option Plan is hereby incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, File No. 333-67115.	
10.11*	Memorandum of Understanding regarding the April 3, 2000 resignation of Sheldon Razin between Sheldon Razin and Quality Systems, Inc., incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended March 31, 2000, File No. 0-13801.	
10.12*	Memorandum of Understanding Relating to Director Nominees is hereby incorporated by reference to Company's Definitive Proxy Statement for the Company's 1999 Shareholder's Meeting, File No. 001-12537.	
10.13*	Employment Agreement dated July 20, 2000 between Quality Systems, Inc. and Lou Silverman, incorporated by reference to Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000, File No. 0-13801.	
10.14	Lease Agreement between Company and Tower Place, L.P. dated November 15, 2000, commencing February 5, 2001.	
10.15	Lease Agreement between Company and Orangewood Business Center Inc. dated April 3, 2000, amended February 22, 2001.	
10.16	Lease Agreement between Company and Craig Development Corporation dated February 22, 2001.	
21	List of Subsidiaries.	44
23.1	Independent Auditor's Consent - Deloitte & Touche LLP.	45

\* This exhibit is a management contract or a compensatory plan or arrangement.

(b) Reports on Form 8-K: None





SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QUALITY SYSTEMS, INC.

By: /s/ LOUIS SILVERMAN  
 -----  
 Louis Silverman  
 Chief Executive Officer

Date: June 26, 2001

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature -----	Title -----	Date ----
/s/ SHELDON RAZIN ----- SHELDON RAZIN	Chairman of the Board of Directors	June 27, 2001
/s/ AHMED HUSSEIN ----- AHMED HUSSEIN	Co-Chairman of the Board of Directors	June 26, 2001
/s/ LOUIS SILVERMAN ----- LOUIS SILVERMAN	Chief Executive Officer	June 27, 2001
/s/ PAUL HOLT ----- PAUL HOLT	Chief Financial Officer, Secretary	June 27, 2001
/s/ MOHAMMED TAWFICK EL-BARDAI ----- MOHAMMED TAWFICK EL-BARDAI	Director	June 25, 2001
/s/ DALE HANSON ----- DALE HANSON	Director	June 25, 2001
/s/ FRANK MEYER ----- FRANK MEYER	Director	June 26, 2001
/s/ WILLIAM SMALL ----- WILLIAM SMALL	Director	June 27, 2001
/s/ EMAD ZIKRY ----- EMAD ZIKRY	Director	June 26, 2001

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
Quality Systems, Inc.

We have audited the accompanying consolidated balance sheets of Quality Systems, Inc. and subsidiary as of March 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001. Our audits also included the financial statement schedule listed in the Index of Item 14. (a) (2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quality Systems, Inc. and subsidiary as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Costa Mesa, California  
May 22, 2001

QUALITY SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except for per share data)

ASSETS	2001	March 31,	2000
<hr/>			
Current Assets:			
Cash and cash equivalents	\$ 18,471		\$ 15,926
Short-term investments	258		243
Accounts receivable, less allowance for doubtful accounts of \$1,335 and \$1,121, respectively	13,335		13,710
Inventories, net	1,030		1,010
Deferred tax assets	1,566		2,066
Other current assets	532		430
Total current assets	35,192		33,385
Equipment and Improvements, net	1,819		1,797
Capitalized Software Costs, net	1,769		1,984
Deferred Tax Assets	2,960		3,042
Goodwill, net of accumulated amortization of \$1,634 and \$1,294, respectively	1,772		2,112
Other Assets, net	1,371		1,816
Total assets	\$ 44,883		\$ 44,136
<hr/>			
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Accounts payable	\$ 1,829		\$ 1,246
Deferred revenue	5,595		5,691
Other current liabilities	3,572		5,116
Total liabilities	10,996		12,053
<hr/>			
Commitments and Contingencies (Note 9)			
Shareholders' Equity:			
Common Stock, \$0.01 par value, 20,000 shares authorized, 5,987 and 6,201 shares issued and outstanding, respectively	60		62
Additional paid-in capital	33,780		35,483
Retained earnings (accumulated deficit)	47		(3,462)
Total shareholders' equity	33,887		32,083
Total liabilities and shareholders' equity	\$ 44,883		\$ 44,136
<hr/>			

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(in thousands, except per share amounts)

	2001	Year Ended March 31, 2000	1999
Net Revenues:			
Sales of computer systems, upgrades and supplies	\$ 19,935	\$ 19,247	\$ 18,875
Maintenance and other services	20,001	17,126	14,941
	39,936	36,373	33,816
Cost of Products and Services	17,283	16,395	15,834
Gross Profit	22,653	19,978	17,982
Selling, General and Administrative Expenses	13,585	12,645	13,495
Research and Development Costs	4,081	3,726	3,603
Income from Operations	4,987	3,607	884
Investment Income	1,032	759	413
Income before Provision for Income Taxes	6,019	4,366	1,297
Provision for Income Taxes	2,510	1,862	713
Net Income and Comprehensive Income	\$ 3,509	\$ 2,504	\$ 584
Net Income per Share, basic and diluted	\$ 0.57	\$ 0.40	\$ 0.09
Weighted Average Shares Outstanding - Basic	6,130	6,208	6,176
Weighted Average Shares Outstanding - Diluted	6,203	6,261	6,185

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(in thousands)

	Common Shares Issued Number	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
Balance at April 1, 1998	5,988	\$60	\$ 33,931	\$ (6,550)	\$ 27,441
Shares Issued for contingent purchase obligation	245	3	1,833	--	1,836
Exercise of Stock Options	33	--	50	--	50
Purchases of Common Stock	(52)	(1)	(246)	--	(247)
Net Income	--	--	--	584	584
Balance at March 31, 1999	6,214	62	35,568	(5,966)	29,664
Exercise of Stock Options	4	--	25	--	25
Tax Benefit Resulting From Stock Options	--	--	1	--	1
Purchases of Common Stock	(17)	--	(111)	--	(111)
Net Income	--	--	--	2,504	2,504
Balance at March 31, 2000	6,201	62	35,483	(3,462)	32,083
Exercise of Stock Options	22	--	152	--	152
Tax Benefit Resulting From Stock Options	--	--	7	--	7
Purchases of Common Stock	(236)	(2)	(1,862)	--	(1,864)
Net Income	--	--	--	3,509	3,509
Balance at March 31, 2001	5,987	\$60	\$ 33,780	\$ 47	\$ 33,887

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	2001	Year Ended March 31, 2000	1999
<b>Cash Flows from Operating Activities:</b>			
Net Income	\$ 3,509	\$ 2,504	\$ 584
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,697	2,204	2,465
Provision for bad debts	1,272	529	954
Loss on short-term investments and other	19	132	261
Deferred income taxes	582	(1,088)	(592)
Changes in:			
Accounts receivable	(897)	(1,751)	(3,496)
Inventories	(20)	(238)	556
Other current assets	(102)	(176)	(2)
Accounts payable	583	(567)	486
Deferred service revenue	(96)	1,207	2,240
Income taxes payable	(1,233)	723	344
Other current liabilities	(203)	136	(453)
<b>Net Cash Provided By Operating Activities</b>	<b>6,111</b>	<b>3,615</b>	<b>3,347</b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from sales of short-term investments	--	29	542
Purchases of short-term investments	--	(50)	(75)
Additions to equipment and improvements	(778)	(588)	(521)
Additions to capitalized software costs	(1,063)	(1,130)	(1,204)
Payment of contingent purchase obligation	--	--	(3,840)
Change in other assets	(13)	(60)	37
<b>Net Cash Used In Investing Activities</b>	<b>(1,854)</b>	<b>(1,799)</b>	<b>(5,061)</b>
<b>Cash Flows from Financing Activities:</b>			
Purchases of Common Stock	\$ (1,864)	\$ (111)	\$ (247)
Proceeds from exercise of stock options	152	25	50
<b>Net Cash Used In Financing Activities</b>	<b>(1,712)</b>	<b>(86)</b>	<b>(197)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>2,545</b>	<b>1,730</b>	<b>(1,911)</b>
Cash and Cash Equivalents, beginning of year	15,926	14,196	16,107
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 18,471</b>	<b>\$ 15,926</b>	<b>\$ 14,196</b>

Supplemental Information - During fiscal 2001, 2000 and 1999 the Company made income tax payments of \$2,779, \$2,421 and \$951, respectively.

See notes to consolidated financial statements.

QUALITY SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

Quality Systems, Inc. ("QSI") and its wholly-owned subsidiary, Clinitec International, Inc. ("Clinitec"), d/b/a MicroMed Healthcare Information Systems, Inc. ("MicroMed"), (collectively the "Company") develop and market proprietary healthcare information systems that automate medical and dental group practices, community health centers, physician hospital organizations, management service organizations, and dental schools. The Company's proprietary software systems include general patient information, appointment scheduling, billing, insurance claims submission and processing, managed care plan implementation and referral management, treatment outcome studies, treatment planning, drug formularies, electronic medical records, dental charting and letter generation. In addition to providing fully integrated solutions, the Company provides its clients with comprehensive hardware and software maintenance and support services, system training services and electronic claims submission services.

2. Summary of Significant Accounting Policies

**Principles of Consolidation.** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All inter-company amounts have been eliminated.

**Basis of Presentation.** The accompanying consolidated financial statements have been prepared in accordance with accounting principals generally accepted in the United States of America.

**Revenue Recognition.** The Company recognizes revenue pursuant to Statement of Position ("SOP") 97-2, "Software Revenue Recognition" ("SOP 97-2"). The Company generates revenues from licensing rights to use its software products directly to end-users. The Company also generates revenues from sales of hardware and third party software, and implementation, training, software customization and post-contract support ("maintenance") services performed for customers who license the Company's products. A typical system contract contains multiple elements of two or more of the above items. In accordance with SOP 97-2, revenue is allocated to each element of the contract based on vendor specific evidence of each element's fair market value. Provided the fees are fixed and determinable and collection is considered probable, revenue from licensing rights and sales of hardware and third party software are recognized upon shipment and transfer of title. Revenue from implementation, training and software customization services is recognized as the corresponding services are performed. Maintenance revenue is recognized ratably over the contractual maintenance period.

In December 1999, the SEC issued SAB No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 101 summarizes the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. SAB No. 101 became effective for the Company in the third quarter of fiscal year 2001 and did not have a significant effect on the Company's financial statements.

**Cash and Cash Equivalents.** Cash and cash equivalents generally consist of cash and money market funds. The Company invests its excess cash in a money market fund which invests in only investment grade money market instruments from a variety of industries, and therefore bears minimal risk. The average maturity of the investments owned by the money market fund is approximately two months.

**Short-Term Investments.** The Company classifies its short-term investments into one of the following categories:

- o Held to maturity - Debt securities for which the Company has the intent and the ability to hold to maturity.
- o Trading - Debt securities that do not meet the "intent-to-hold" criteria and equity securities, both of which are bought and held principally for the purpose of being sold in the near term.

- o Available-for-sale - Debt securities that do not meet the "intent-to-hold" criteria and which are not classified as trading securities, as well as all equity securities not otherwise classified as trading securities.

Held to maturity securities are carried in the balance sheet at cost (unless there are declines in the values of individual securities that are not due to temporary declines), and realized gains and losses are recorded in the statement of operations in the period that they are earned or incurred. Trading securities are carried in the balance sheet at fair market value and unrealized gains and losses are recorded in the statement of operations. Available-for-sale securities are carried in the balance sheet at fair market value; realized gains and losses are recorded in the statement of operations when they are earned or incurred, and unrealized gains and losses, net of tax effect, are recognized as a component of shareholders' equity. Realized gains and losses from investment transactions are determined on a first-in, first-out basis.

Accounts Receivable. The Company provides credit terms typically ranging from thirty days to twelve months for most system and maintenance contract sales and generally does not require collateral. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses.

Inventories. Inventories are valued at lower of cost (first-in, first-out) or market. Certain inventories are maintained for customer support pursuant to service agreements and are amortized over a five-year period using the straight-line method.

Equipment and Improvements. Equipment and improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of equipment and improvements are provided over the estimated useful lives of the assets, or the related lease terms if shorter, by the straight-line method. Useful lives range from three to seven years.

Software Development Costs. Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. After technological feasibility is established, any additional development costs are capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Such costs are amortized on a straight line basis over the estimated economic life of the related product, generally three years. The Company performs a periodic review of the recoverability of such capitalized software costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, any remaining capitalized amounts are written off.

Goodwill and Intangible Assets. Goodwill and intangible assets are being amortized using the straight-line method over ten years and five years, respectively. The Company performs a periodic review of the recoverability of such unamortized amounts. At the time a determination is made that any portion of such unamortized amounts are not recoverable based on the estimated cash flows to be generated, the excess amount is written off pursuant to APB Opinion No. 17, "Intangible Assets". The recoverability of intangible assets is measured based upon SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS No. 121").

Long Lived Assets. The Company accounts for the impairment and disposition of long-lived assets in accordance with SFAS No. 121. In accordance with SFAS No. 121, long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. The Company periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred and has determined that there was no impairment at March 31, 2001.

Income Taxes. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for



operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. Valuation allowances are established as a reduction of net deferred tax assets when management cannot determine that it is now more likely than not that the deferred assets will be realized.

Earnings per Share. Pursuant to SFAS No. 128, "Earnings Per Share," the Company provides dual presentation of "basic" and "diluted" earnings per share ("EPS").

Basic EPS excludes dilution from Common Stock equivalents and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from Common Stock equivalents.

The following table reconciles the weighted average shares outstanding for basic and diluted net income per share for the periods presented.

(in thousands except per share amounts)	2001	Year Ended March 31, 2000	1999
Net income	\$ 3,509	\$ 2,504	\$ 584
Basic net income per common share:			
Weighted average of common shares outstanding	6,130	6,208	6,176
Basic net income per common share	\$ 0.57	\$ 0.40	\$ 0.09
Diluted net income per share:			
Weighted average of common shares outstanding	6,130	6,208	6,176
Weighted average of common shares equivalents-			
Weighted average options outstanding	73	53	9
Weighted average number of common and common equivalent shares	6,203	6,261	6,185
Diluted net income per common share	\$ 0.57	\$ 0.40	\$ 0.09

Stock-Based Compensation. The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), as amended.

Comprehensive Income. In fiscal 1999, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). This statement establishes standards for the reporting of comprehensive income and its components. Comprehensive income, as defined, includes all changes in equity (net assets) during a period, from non-owner sources. For the years ended, March 31, 2001, 2000, and 1999, there were no significant differences between net income and comprehensive income.

Segment Disclosures. In fiscal 1999, the Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS No. 131"). The Company adopted SFAS No. 131 effective with the fiscal year ended March 31, 1999. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to shareholders. SFAS No. 131 also establishes standards for related disclosures about major customers, products and services, and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance.

The Company has prepared operating segment information in accordance with SFAS No. 131 in Note 11.

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

New Accounting Pronouncements. In June 1998 the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. In July 1999 the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133," which delays the effective date of SFAS No. 133 to fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 effective April 1, 2001. The adoption of SFAS No. 133 did not have a material effect on the Company's consolidated results of operations or financial condition.

### 3. Cash Equivalents and Short-Term Investments

At March 31, 2001 and 2000, the Company had cash equivalents of \$18.5 million and \$15.9 million, respectively, invested in a major national brokerage firm's institutional fund that specializes in U.S. government securities and commercial paper with high credit ratings.

At March 31, 2001 and 2000, all short-term investments consist of trading securities. The Company bears no off-balance sheet risk on its investments.

Investment income for each of the three years ended March 31, 2001 consists of the following:

(in thousands)	Year Ended March 31,		
	2001	2000	1999
Interest Income	\$ 1,012	\$ 783	\$ 674
Net Gains (Losses) on Short-Term Investments -			
Realized	0	0	(220)
Unrealized	15	(24)	(38)
Other	5	0	(3)
	\$ 1,032	\$ 759	\$ 413

### 4. Capitalized Software Costs

Capitalized software costs at March 31, 2001 and 2000 were net of accumulated amortization of \$4.3 million and \$3.3 million, respectively.

Information related to net capitalized software costs is as follows:

(in thousands)	Year Ended March 31,		
	2001	2000	1999
Beginning of year	\$ 1,984	\$ 2,144	\$ 2,183
Capitalized	1,063	1,130	1,204
Amortization	(1,278)	(1,290)	(1,243)
End of year	\$ 1,769	\$ 1,984	\$ 2,144

5. Composition of Certain Financial Statement Captions

(in thousands)

	Year Ended March 31,	
	2001	2000
<b>Inventories:</b>		
Computer systems and components	\$ 679	\$ 785
Replacement parts for certain client systems, net of accumulated amortization of \$633 and \$594, respectively	309	188
Miscellaneous parts and supplies	42	37
	<u>\$ 1,030</u>	<u>\$ 1,010</u>
<b>EQUIPMENT AND IMPROVEMENTS:</b>		
Computers and electronic test equipment	\$ 3,764	\$ 3,175
Furniture and fixtures	1,092	964
Vehicles	8	72
Leasehold improvements	139	133
	<u>5,003</u>	<u>4,344</u>
Accumulated depreciation and amortization	<u>(3,184)</u>	<u>(2,547)</u>
	<u>\$ 1,819</u>	<u>\$ 1,797</u>
<b>OTHER ASSETS:</b>		
Intangible assets, net of accumulated amortization of \$1,550 and \$1,196, respectively	\$ 220	\$ 574
Other	1,151	1,242
	<u>\$ 1,371</u>	<u>\$ 1,816</u>
<b>OTHER CURRENT LIABILITIES:</b>		
Accrued payroll and related expenses	\$ 1,373	\$ 1,322
Deferred compensation	967	1,021
Income taxes payable	380	1,445
Other accrued expenses	852	1,328
	<u>\$ 3,572</u>	<u>\$ 5,116</u>

6. Income Taxes

The income tax provision consists of the following components:

(in thousands)

	Year Ended March 31,		
	2001	2000	1999
<b>Federal:</b>			
Current taxes	\$ 1,823	\$ 2,308	\$ 1,095
Deferred taxes	500	(808)	(473)
	<u>\$ 2,323</u>	<u>\$ 1,500</u>	<u>\$ 622</u>
<b>State:</b>			
Current taxes	105	642	210
Deferred taxes	82	(280)	(119)
	<u>187</u>	<u>362</u>	<u>91</u>
	<u>\$ 2,510</u>	<u>\$ 1,862</u>	<u>\$ 713</u>

The income tax provision differs from an amount computed at the Federal statutory rate as follows:

(in thousands)	2001	Year Ended March 31, 2000	1999
Federal income tax provision at statutory rate (34%)	\$ 2,046	\$ 1,485	\$ 441
Increases (decreases) resulting from:			
Non-deductible amortization of Goodwill	167	160	161
State income taxes	262	222	96
Other	35	(5)	15
	<u>\$ 2,510</u>	<u>\$ 1,862</u>	<u>\$ 713</u>

The net deferred tax assets in the accompanying consolidated balance sheets include the following components:

(in thousands)	2001	Year Ended March 31, 2000
Deferred tax assets:		
Short-term investments	\$ 6	\$ 14
Accounts receivable	1,062	1,459
Inventories	80	70
Purchased in-process research and development	2,872	3,130
Intangible assets	173	128
Accrued compensation	275	291
Accrued liability for deferred compensation	348	348
Other accrued liabilities	4	12
Deferred revenue	79	109
State income taxes	77	139
	<u>\$ 4,976</u>	<u>\$ 5,700</u>
Deferred tax liabilities:		
Inventories	\$ (17)	\$ (18)
Equipment and improvements	(12)	(12)
Accumulated depreciation	(52)	(57)
Capitalized software	(369)	(495)
Deferred revenue	--	(10)
	<u>(450)</u>	<u>(592)</u>
	<u>\$ 4,526</u>	<u>\$ 5,108</u>

The deferred tax assets and liabilities have been shown net in the accompanying balance sheets based on the long-term or short-term nature of the items which give rise to the deferred amount.

#### 7. Employee Benefit Plans

QSI and MicroMed each have a profit sharing and retirement plan (collectively, the "Retirement Plans") for the benefit of substantially all of their employees. Participating employees may defer up to 15% of their compensation per year. The Company's annual contribution is determined by the Company's Board of Directors and the Retirement Plans may be amended or discontinued at the discretion of the Board of Directors. Contributions of \$77,000, \$73,000 and \$53,000 were made to the Retirement Plans for the fiscal years ended March 31, 2001, 2000 and 1999, respectively.

During the fiscal year ended March 31, 1994, QSI initiated a deferred compensation plan (the "Deferral Plan") for the benefit of officers and key employees. Participating employees may defer all or a portion of their compensation for a Deferral Plan year. In addition, the Company may, but is not required to, make contributions into the Deferral Plan on behalf of participating employees. Each participating employee's deferred compensation and share of Company contributions has been invested in a life insurance policy which has death benefit and mutual fund features. Investment decisions are made by each participating employee from a family of mutual funds. The Company is the owner and beneficiary of

the life insurance policies and has an obligation to pay the greater of the death benefit or the net cash surrender value upon each employee's death or termination. The net cash surrender value of the life insurance policies and the related Company obligation for deferred compensation was \$967,000 and \$1,021,000 at March 31, 2001 and 2000, respectively. The Company made contributions of \$11,000, \$10,000 and \$8,000 to the Deferral Plan for the fiscal years ended March 31, 2001, 2000 and 1999, respectively.

#### 8. Employee Stock Option Plans

During fiscal 1990, the Company's shareholders approved a stock option plan (the "1989 Plan") under which 1,000,000 shares of Common Stock have been reserved for the issuance of options. The 1989 Plan provides that salaried officers, key employees and non-employee directors of the Company may, at the discretion of the Board of Directors, be granted options to purchase shares of Common Stock at an exercise price not less than 85% of their fair market value on the option grant date. Upon an acquisition of the Company by merger or asset sale, each outstanding option will be subject to accelerated vesting under certain circumstances. The 1989 Plan terminated on June 30, 1999, however there remain 212,238 outstanding options under the 1989 plan which remain eligible for exercise until the expiration of their respective terms.

In September 1998, the Company's shareholders approved a stock option plan (the "1998 Plan") under which 1,000,000 shares of Common Stock have been reserved for the issuance of options. The 1998 Plan provides that employees, directors and consultants of the Company, at the discretion of the Board of Directors, be granted options to purchase shares of Common Stock. The exercise price of each option granted shall be determined by the Company's Board of Directors at the date of grant. Upon an acquisition of the Company by merger or asset sale, each outstanding option will be subject to accelerated vesting under certain circumstances. The 1998 Plan terminates on December 31, 2007, unless sooner terminated by the Board. At March 31, 2001, 716,240 shares were available for future grant under the 1998 Plan.

A summary of option transactions under the 1989 & 1998 Plans for the three years ended March 31, 2001 is as follows:

(in thousands)

	Number of Shares	Weighted Average Exercise Price
Outstanding, March 31, 1998 (50,500 exercisable at a weighted average price of \$3.45)	219,532	6.31
Granted (weighted average fair value of \$2.05)	60,000	7.26
Exercised	(33,000)	1.50
Cancelled	(66,250)	7.56
Outstanding, March 31, 1999 (53,821 exercisable at a weighted average price of \$7.09)	180,282	7.04
Granted (weighted average fair value of \$3.51)	220,250	6.58
Exercised	(4,625)	5.52
Cancelled	(23,048)	6.86
Outstanding, March 31, 2000 (107,867 exercisable at a weighted average price of \$7.11)	372,859	\$ 6.80
Granted (weighted average fair value of \$2.57)	179,010	7.97
Exercised	(22,512)	6.73
Cancelled	(50,859)	7.73
Outstanding, March 31, 2001 (143,429 exercisable at a weighted average price of \$6.76)	478,498	\$ 7.16

The outstanding stock options vest ratably over a four-year period commencing from the respective option grant dates. Stock options outstanding at March 31, 2001 are summarized as follows:

(in thousands)	Range of Exercise Prices	Number Outstanding at March 31, 2001	Weighted Avg. Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price
Options Outstanding	\$ 3.69 - \$ 6.25	89,750	3.1	\$ 6.04
	\$ 6.38 - \$ 8.13	358,248	3.1	\$ 7.26
	\$ 9.13 - \$ 10.06	30,500	4.3	\$ 9.37
		-----		
		478,498	3.2	\$ 7.16
		=====		

(in thousands)	Range of Exercise Prices	Number Exercisable at March 31, 2000	Weighted Average Exercise Price
Options Exercisable	\$ 3.69 - \$ 6.25	24,750	\$ 5.86
	\$ 6.38 - \$ 8.13	116,429	\$ 6.90
	\$ 9.13 - \$ 10.06	2,250	\$ 12.82
		-----	
		143,429	\$ 6.76
		=====	

The Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB Opinion No. 25. Accordingly, no compensation expense has been recognized in the financial statements for employee stock option grants all of which had market value exercise prices at the date of grant. SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") requires the disclosure of pro forma net income and pro forma net income per share had the Company adopted the fair value method. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

The Company's calculations were made using the Black-Scholes option pricing model with the following assumptions: expected life - twelve months following full vesting or approximately 60 months from the date of the grant; stock volatility - ranging from 50% to 60% in fiscal 2001 and 2000, and ranging from 44% to 81% in fiscal 1999, risk free interest rates - 5.0% in fiscal 2001, 6.0% in fiscal 2000, and 5.5% in fiscal 1999; and, no dividends during the expected term. The Company's calculations are based on a single option valuation approach and forfeitures are recognized as they occur. If the computed fair values of awards had been amortized to expense over the vesting period of the awards, pro forma net income would have been \$3,169,000 or \$0.52 per share in fiscal 2001, \$2,111,000 or \$0.34 per share in fiscal 2000, and \$410,000 or \$0.06 per share in fiscal 1999. These amounts are based on calculated values for option awards in fiscal 2001, 2000 and 1999 of \$461,000, \$775,000 and \$123,000, respectively.

#### 9. Commitments and Contingencies

**Litigation.** On April 22, 1997, a purported class action entitled JOHN P. CAVENY v. QUALITY SYSTEMS, INC., ET AL. was filed in the Superior Court of the State of California for the County of Orange, in which Mr. Caveny, on behalf of himself and all others who purchased the Company's Common Stock between June 26, 1995 and July 3, 1996, alleges that the Company, and Sheldon Razin, Robert J. Beck, Gregory S. Flynn, Abe C. LaLande, Donn Neufeld, Irma G. Carmona, John A. Bowers, Graeme H. Frehner, and Gordon L. Setran (all of the foregoing individuals were either officers, directors or both during the period from June 26, 1995 through July 3, 1996), as well as other defendants not affiliated with the Company, violated California Corporations Code Sections 25400 and 25500, California Civil Code Sections 1709 and 1710, and California Business and Professions Code Sections 17200 et. seq., by issuing positive statements about the Company that allegedly were knowingly false, in part, in

order to assist the Company and the individual defendants in selling Common Stock at an inflated price in the Company's March 5, 1996 public offering and at other points during the class period. The complaint seeks compensatory and punitive damages in unspecified amounts, disgorgement, declaratory and injunctive relief, and attorneys' fees.

The Company and the other named defendants successfully demurred to the plaintiffs' claim under California Civil Code Sections 1709 and 1710, and that claim, which served as the only basis for plaintiffs' request for punitive damages, has been dismissed from both actions.

On January 25, 1999, the court denied plaintiffs' motion to certify the class representative and class legal counsel. Plaintiffs appealed that decision as to class legal counsel. On February 25, 2000, the Fourth District Court of Appeals affirmed the order disqualifying the class legal counsel. On May 9, 2000, the Court of Appeals issued its Remittur certifying its decision as final.

In May 2000, plaintiffs associated in additional class legal counsel, and moved for approval by the court. Upon defendants' objection, the court on August 17, 2000, denied plaintiffs' motion, and ordered plaintiffs to retain new class counsel.

At the end of November 2000, the plaintiffs retained new class counsel who substituted in for plaintiffs' previous class counsel. The Company and the other named defendants did not oppose plaintiffs' motion for approval of the new class counsel. On January 24, 2001, the court granted the motion to certify class legal counsel.

On March 27, 2001, the court approved a notice of class certification to be mailed to shareholders who are potential class members. Between April 9, 2001 and May 9, 2001, class notice was mailed to potential class members.

Merits-related discovery in the action had been stayed pending the appointment of class counsel. In March 2001, the plaintiffs requested that documents be produced informally. The defendants have produced documents informally for plaintiffs' review. The court has entered a stipulated protective order governing discovery in the action. Counsel for plaintiffs and defendants intend to meet to discuss the plaintiffs' review of the informal document production at or around the time that the parties appear in court for the next status conference on July 30, 2001.

In Management's opinion the outcome of this case is uncertain, and therefore no accrual has been made to the financial statements.

On May 14, 1997, a second purported class action entitled WENDY WOO v. QUALITY SYSTEMS, INC., ET AL. was filed in the same court, essentially repeating the allegations in the Caveny lawsuit and seeking identical relief. This action has for all purposes been consolidated with the Caveny action.

On March 23, 1999, a purported class action and derivative complaint entitled IRVING ROSENZWEIG v. SHELDON RAZIN, ET AL. was filed in the Superior Court of the State of California for the County of Orange, in which Mr. Rosenzweig, on behalf of himself and all non-director shareholders, and derivatively on behalf of the Company, alleges that Sheldon Razin, John Bowers, William Bowers, Patrick Cline, Janet Razin and Gordon Setran (all of the foregoing individuals were directors of the Company) breached their fiduciary duties by allegedly entrenching themselves in their positions of control, failing to ensure that third party offers involving the Company were fully and fairly considered, and/or failing to conduct a reasonable inquiry to assure the maximization of shareholder value. The complaint sought declaratory and injunctive relief, an accounting of monetary damages allegedly suffered by plaintiff and the purported class, and attorneys' fees. Defendants demurred to each of the causes of action alleged in the complaint and the court sustained those demurrers with leave to amend in December 1999. Rather than file an amended complaint, plaintiff filed a motion for attorney's fees. Defendants, in turn, filed a motion to dismiss the action for failure to file an amended pleading within the time limit specified by the court.

The parties agreed to a settlement of action and stipulated to a final judgment and order which was entered by the court on May 15, 2000, at which time the action was dismissed. The final judgment and order provided for a dismissal of the action with prejudice, releases given to each of the defendants, and

payment of the nominal sum of \$100,000 (paid by the Company's directors and officers liability insurance company) in full settlement of plaintiff's motion for attorney's fees.

The settlement further expressly provided that it did not constitute an admission of any liability of defendants, which defendants continue to vigorously deny.

The Company is a party to various other legal proceedings incidental to its business, none of which are considered by the Company to be material.

Rental Commitments. The Company leases its facilities and offices under non-cancelable operating lease agreements expiring at various dates through February 2006. The Company has rental commitments under these agreements in fiscal 2002, 2003, 2004, 2005 and 2006 of \$674,000, \$203,000, \$203,000, \$189,000 and \$173,000, respectively. Total rental expense for all operating leases was \$914,000, \$901,000 and \$807,000 for the years ended March 31, 2001, 2000 and 1999, respectively.

#### 10. Stock Repurchase Plan

In February 1997, the Company's Board of Directors authorized the repurchase on the open market of up to 10% of the shares of the Company's outstanding Common Stock, subject to compliance with applicable laws and regulations. This authorization has been renewed annually and currently expires on June 7, 2001. As of March 31, 2001, the Company has repurchased 345,800 shares at a cash cost of \$2,494,000. The Company's management could, in the exercise of its judgment, decide not to effect any additional repurchases, or to repurchase fewer shares than authorized.

#### 11. Operating Segment Information

The Company has prepared operating segment information in accordance with SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" to report components that are evaluated regularly by the Company's chief operating decision maker, or decision making group in deciding how to allocate resources and in assessing performance.

The Company's reportable operating segments include its MicroMed Division and the QSI Division.

The accounting policies of the Company's operating segments are the same as those described in Note 2 - Summary of Significant Accounting Policies - except that the disaggregated financial results of the segments reflect allocation of certain functional expense categories consistent with the basis and manner in which Company management internally disaggregates financial information for the purpose of assisting in making internal operating decisions. Certain corporate overhead costs are not allocated to the individual segments by Management. The Company evaluates performance based on stand-alone segment operating income. Because the Company does not evaluate performance based on return on assets at the operating segment level, assets are not tracked internally by segment. Therefore, segment asset information is not presented.

Operating segment data for the three years ended March 31, was as follows:

(in thousands)	QSI Division	MicroMed Division	Unallocated Corporate Expenses	Consolidated
<b>Year Ended March 31, 2001</b>				
Revenue	\$ 17,225	\$ 22,711	--	\$ 39,936
Operating Income (Loss)	\$ 3,231	\$ 3,662	\$ (1,906)	\$ 4,987
Assets	--	--	--	\$ 44,883
<b>Year Ended March 31, 2000</b>				
Revenue	\$ 18,955	\$ 17,418	--	\$ 36,373
Operating Income (Loss)	\$ 3,230	\$ 2,346	\$ (1,969)	\$ 3,607
Assets	--	--	--	\$ 44,136
<b>Year Ended March 31, 1999</b>				
Revenue	\$ 19,396	\$ 14,420	--	\$ 33,816
Operating Income (Loss)	\$ 3,814	\$ (1,339)	\$ (1,591)	\$ 884
Assets	--	--	--	\$ 40,218



In fiscal 2001 management adopted certain internal allocation conventions for use in the evaluating the performance of individual operating divisions on a go-forward basis. Although these conventions were not applied during the fiscal years 2000 and 1999, management has estimated the segment disclosures and related corporate costs for the respective periods.

## 12. Selected Quarterly Operating Results

The following table presents quarterly unaudited consolidated financial information for the eight quarters in the period ended March 31, 2001. Such information is presented on the same basis as the annual information presented in other sections of this report. In management's opinion, this information reflects all adjustments, all of which are of a normal recurring nature, that are necessary for a fair presentation of the results for these periods.

### COMPARISON BY QUARTER

(in thousands)	Quarter Ended (Unaudited)							
	6/30/99	9/30/99	12/31/99	3/31/00	6/30/00	9/30/00	12/31/00	3/31/01
Systems, upgrades and supplies sales	\$ 5,116	\$ 5,633	\$ 4,435	\$ 4,063	\$ 4,395	\$ 4,794	\$ 5,230	\$ 5,516
Maintenance and other	\$ 3,986	\$ 4,076	\$ 4,373	\$ 4,691	\$ 4,867	\$ 4,869	\$ 5,103	\$ 5,162
Costs of products and services	\$ 9,102	\$ 9,709	\$ 8,808	\$ 8,754	\$ 9,262	\$ 9,663	\$ 10,333	\$ 10,678
	\$ 4,058	\$ 4,466	\$ 4,023	\$ 3,848	\$ 4,032	\$ 4,363	\$ 4,459	\$ 4,429
Selling, General, & Administrative	\$ 5,044	\$ 5,243	\$ 4,785	\$ 4,906	\$ 5,230	\$ 5,300	\$ 5,874	\$ 6,249
Research & Development	\$ 3,040	\$ 3,138	\$ 3,166	\$ 3,301	\$ 3,365	\$ 3,244	\$ 3,451	\$ 3,525
	\$ 892	\$ 965	\$ 962	\$ 907	\$ 1,005	\$ 974	\$ 1,010	\$ 1,092
Investment Income	\$ 1,112	\$ 1,140	\$ 657	\$ 698	\$ 860	\$ 1,082	\$ 1,413	\$ 1,632
	\$ 166	\$ 182	\$ 183	\$ 228	\$ 246	\$ 251	\$ 261	\$ 274
Provision for Income Taxes	\$ 1,278	\$ 1,322	\$ 840	\$ 926	\$ 1,106	\$ 1,333	\$ 1,674	\$ 1,906
	\$ 536	\$ 584	\$ 365	\$ 377	\$ 481	\$ 589	\$ 708	\$ 732
Net Income	\$ 742	\$ 738	\$ 475	\$ 549	\$ 625	\$ 744	\$ 966	\$ 1,174
Net Income per share - Basic	\$ .12	\$ .12	\$ .08	\$ .09	\$ .10	\$ .12	\$ .16	\$ .20
Net Income per share - Diluted	\$ .12	\$ .12	\$ .08	\$ .09	\$ .10	\$ .12	\$ .16	\$ .19
Weighted Average Shares								
Outstanding - Basic	6,215	6,215	6,208	6,199	6,209	6,209	6,119	5,983
Weighted Average Shares								
Outstanding - Diluted	6,218	6,241	6,218	6,355	6,297	6,273	6,162	6,099

### Schedule II ALLOWANCE FOR DOUBTFUL ACCOUNTS (in thousands)

Description	Balance at beginning of period	Additions		Deductions	Balance at End of Period
		Charged to costs and expenses	Charged to other accounts		
For the year ended:					
March 31, 2001	\$ 1,121	\$ 1,272	\$ --	\$ (1,058)	\$ 1,335
March 31, 2000	\$ 754	\$ 529	\$ --	\$ (162)	\$ 1,121
March 31, 1999	\$ 521	\$ 954	\$ --	\$ (721)	\$ 754

Exhibit 10.14  
Lease Agreement between Company and Tower Place, L.P. dated November  
15, 2000, commencing February 5, 2001.

TOWER PLACE OFFICE LEASE

by and between

TOWER PLACE, L.P.

a Georgia Limited Partnership

and

QUALITY SYSTEMS, INC.

a California corporation

November 15, 2000

Atlanta, Georgia

TABLE OF CONTENTS

ARTICLE I FUNDAMENTAL PROVISIONS, EXHIBITS AND DEFINITIONS .....	4
1.1 FUNDAMENTAL PROVISIONS .....	4
1.2 EXHIBITS .....	5
1.3 DEFINITIONS .....	5
ARTICLE II GRANT AND TERM .....	7
2.1 PREMISES .....	7
2.2 TERM .....	7
ARTICLE III RENT .....	7
3.1 BASE RENTAL .....	7
3.2 BASE RENTAL ADJUSTMENT .....	7
3.3 OPERATING EXPENSES INCREASE .....	7
3.4 GENERAL PROVISIONS REGARDING RENT .....	8
3.5 INITIAL INSTALLMENT .....	9
3.6 SECURITY DEPOSIT .....	9
3.7 LANDLORD'S SECURITY INTEREST .....	9
ARTICLE IV RIGHTS AND DUTIES DURING LEASE TERM .....	9
4.1 PREPARATION OF THE PREMISES .....	9
4.2 SERVICES .....	10
4.3 LIABILITY OF LANDLORD .....	10
4.4 REPAIRS BY LANDLORD .....	10
4.5 RIGHTS OF LANDLORD TO ENTER PREMISES .....	10
4.6 AGREEMENTS OF TENANT .....	11
4.7 SIGNS .....	11
4.8 BUILDING NAME .....	12
4.9 HAZARDOUS MATERIALS .....	12
4.10 INSURANCE .....	12
4.11 LIENS .....	13
ARTICLE V ASSIGNMENT AND SUBLETTING .....	13
5.1 ASSIGNMENT AND SUBLETTING .....	13
ARTICLE VI DEFAULT AND REMEDIES .....	14
6.1 EVENTS OF DEFAULT .....	14
6.2 REMEDIES .....	14
ARTICLE VII DESTRUCTION OR DAMAGE; CONDEMNATION .....	15
7.1 DESTRUCTION OF OR DAMAGE TO PREMISES .....	15
7.2 EMINENT DOMAIN .....	15
7.3 DETERMINATION OF TIME REQUIRED TO REBUILD .....	15
7.4 PARTIAL DESTRUCTION OR TAKING .....	16
ARTICLE VIII ADDITIONAL PROVISIONS .....	16
8.1 ADDRESSES - NOTICES .....	16
8.2 MANAGER .....	17
8.3 SURRENDER OF PREMISES .....	17
8.4 HOLDING OVER .....	17
8.5 BROKER .....	17
8.6 WAIVER OF RIGHTS .....	17
8.7 WAIVER OF HOMESTEAD AND EXEMPTION; BANKRUPTCY OF TENANT ..	17
8.8 NO ESTATE IN LAND; RELATIONSHIP OF THE PARTIES .....	18
8.9 RECORDING .....	18
8.10 GOVERNMENTAL REGULATIONS .....	18
8.11 SUBORDINATION AND ATTORNMENT: .....	19
8.12 ESTOPPEL CERTIFICATION .....	19
8.13 SEVERABILITY .....	19
8.14 CAPTIONS .....	20
8.15 SUCCESSORS AND ASSIGNS .....	20
8.16 SALE OF BUILDING .....	20
8.17 TRANSFER OF TENANTS .....	20
8.18 GOVERNING LAW .....	20
8.19 TIME IS OF ESSENCE .....	20
8.20 LIMITATION OF LIABILITY .....	20
8.21 EXECUTION .....	20
8.22 MULTIPLE TENANTS .....	20
8.23 FORCE MAJEURE .....	20
8.24 QUIET ENJOYMENT .....	20
8.25 ATTORNEYS' FEES .....	20
8.26 ALTERATIONS IN COMPOSITION OF COMMON AREAS .....	20
8.27 PARKING .....	21
8.28 SPECIAL STIPULATIONS .....	21
8.29 AUTHORIZATION .....	21

TOWER PLACE OFFICE LEASE

THIS TOWER PLACE OFFICE LEASE (this "Lease") is made as of this 15th day of Nov., 2000 by and between TOWER PLACE, L.P., a Georgia Limited Partnership (herein called "Landlord"), and Quality Systems, Inc., a California Corporation (herein called "Tenant").

ARTICLE I

FUNDAMENTAL PROVISIONS. EXHIBITS AND DEFINITIONS

1.1 FUNDAMENTAL PROVISIONS: The following is a summary of certain fundamental provisions of the Lease:

- (a) Landlord: Tower Place, L.P., a Georgia Limited Partnership;
- (b) Tenant: Quality Systems, Inc., a California Corporation
- (c) Premises: Suite 450
- (d) Building: 3340 Peachtree Road N.E., Tower Place, Atlanta, Georgia;
- (e) Stipulated Square Footage (Premises): Approximately 7,720 rentable square feet;
- (t) Stipulated Square Footage (Building): 609,882 rentable square feet;
- (g) Base Rental: Subject to adjustment in accordance with the provisions of Section 3.2 hereof, One Hundred Eighty Nine One Hundred Forty, 00/100 DOLLARS (\$189,140.00) per annum, payable monthly in advance in equal installments of Fifteen Thousand Seven Hundred Sixty One, 67/100 DOLLARS (\$15,761.67) per month;
- (h) Initial Installment: Fifteen Thousand Seven Hundred Sixty One, 67/100 DOLLARS (\$15,761.67);
- (i) Security Deposit: \$0;
- (j) Base Year: Calendar year 2001;
- (k) Tenant's Share: 1.27 percent (1.27%);
- (l) Anticipated Commencement Date: February 1, 2001; the actual Commencement Date shall be determined in accordance with the provisions of Section 2.2 and confirmed in the Commencement Date Agreement;
- (m) Expiration Date: Five (5) years and (0) months after the Commencement Date (unless the Commencement Date occurs on other than the first day of a calendar month, in which case the Expiration Date shall be the last day of the calendar month in which foregoing date occurs);
- (n) Tenant's Address for Notices: Prior to Commencement Date:  
17822 E. 17th Street  
Suite 210  
Tustin, California 92780  
Following Commencement Date:  
Tower Place  
Suite 450  
3340 Peachtree Road, NE  
Atlanta, Georgia 30326  
Attn:
- (o) Manager: Regent Partners, Inc., a Georgia Corporation;
- (p) Landlord's Broker: Regent Partners, Inc., a Georgia Corporation;
- (q) Tenant's Broker: The Brannen Goddard Company, a Georgia Corporation and
- (r) Maximum Number of Parking Spaces Available to Tenant as of the Commencement Date: Twenty Four (24).

It is understood that the foregoing is intended as a summary of certain portions of the Lease and is intended for convenience only. If there is a conflict between the above summary and any provisions of this Lease hereafter set forth, the latter shall govern and control.

1.2 EXHIBITS: The following exhibits are attached to this Lease, are by this reference incorporated into the Lease and made a part hereof and are to be construed as part of this Lease:

- EXHIBIT "A" - Special Stipulations
- EXHIBIT "B" - Floor Plan(s) of Premises;
- EXHIBIT "C" - Legal Description - Tower Place Complex;
- EXHIBIT "D" - Commencement Date Agreement (form);
- EXHIBIT "E" - Operating Expenses;
- EXHIBIT "F" - Work Schedule;
- EXHIBIT "G" - Rules and Regulations; and
- EXHIBIT "H" - Estoppel Certificate

1.3 DEFINITIONS: The following terms, as defined below, are used generally in this Lease, in addition to other terms defined herein:

(a) Base Rental means the annual rental provided in Section 1.1 (g) above which is payable pursuant to Section 3.1 and as same may be adjusted in accordance with the provisions of Section 3.2;

(b) Base Year means the calendar year stipulated in Section 1.1 (j);

(c) Building means the 29-story office building located in the Tower Place Complex and having a street address of 3340 Peachtree Road N.E., Atlanta, Georgia, together with any additions, replacements or alterations to same;

(d) Commencement Date means the date on which the Lease Term begins as determined in accordance with the provisions of Section 2.2 and as memorialized by Landlord and Tenant in the Commencement Date Agreement. The Anticipated Commencement Date is as set forth in Section 1.1(1) above;

(e) Commencement Date Agreement means the agreement to be executed by Landlord and Tenant to memorialize the Commencement Date. The Commencement Date Agreement shall be in the form attached as Exhibit "C", with the blanks appearing thereon completed in accordance with the provisions hereof;

(f) Common Area or Common Areas means all areas, whether improved or unimproved, within the exterior boundaries of the Tower Place Complex which are now or hereafter made available for the nonexclusive use, convenience and benefit of Landlord and Tenant and other tenants of the Tower Place Complex, their employees, agents, customers, invitees and licensees, including, without limiting the generality of the foregoing, malls, walkways, driveways, curbs, gutters, sidewalks, corridors, loading zones, service areas, signs, courts, paving, lighting and landscaped and planted areas. The meaning of "Common Area" or "Common Areas" may be expanded, contracted or otherwise altered in accordance with the provisions of Section 8.26;

(g) \*

(h) Estimated Operating Expense Increase means Landlord's estimate of (a) the amount by which the Operating Expenses for an Expense Increase Year will be in excess of the Operating Expense Base multiplied by (b) Tenant's Share;

(i) Estimated Operating Statement means a statement rendered to Tenant setting forth: (A) Landlord's reasonable estimate of the projected Operating Expenses for the then-current Expense Increase Year, (B) a computation of the Estimated Operating Expense Increase due for the then-current Expense Increase Year, (C) a computation of the monthly Estimated Operating Expense Increase installments to be paid by Tenant pursuant to the Estimated Operating Statement, being one-twelfth (1/12) of the amount determined pursuant to clause (B) above, and (D) a computation of the amount due Landlord, or credit due Tenant, in respect of the lapsed months of the then-current Expense Increase Year;

(j) Expense Increase Year means each calendar year, commencing with the calendar year following the Base Year, falling, in whole or in part, within the Lease Term;

(k) Expiration Date means the date provided or determined as set forth in Section 1.1(m) above;

(l) Initial Installment means the amount stipulated in Section 1.1(h), equal to one monthly installment of the initial Base Rental, which has been paid by Tenant to Landlord under the provisions of Section 3.5;

(m) Landlord's Broker means the entity designated in Section 1.1(p);

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(n) Landlord's Mortgage means any or all mortgages, deeds to secure debt, deeds of trust or other instruments in the nature thereof which may now or hereafter affect or encumber Landlord's title to the Tower Place Complex, the Building or the Premises, and all modifications, renewals, consolidations, extensions or replacements thereof;

(o) Lease Term means that period of time beginning on the Commencement Date and ending on the Expiration Date, as same may be extended or renewed in accordance with any renewal or extension option expressly provided by this Lease;

(p) Manager means any entity appointed by Landlord to manage the Building and/or perform all or certain of Landlord's obligations under this Lease. The Manager as of the date hereof is stated in Section 1.1 (0);

(q) Operating Expense Base means, subject to Section 3.3(d) hereof, Operating Expenses for the Building for the Base Year;

(r) Operating Expense Increase means the payments to be made by Tenant to Landlord in the amounts, at the times and in the manner provided for by Section 3.3;

(s) Operating Expenses are defined in Exhibit "D", which is attached hereto, and are subject to Section 3.3(d) hereof;

(t) Operating Statement means a statement setting forth (1) the Operating Expenses for an Expense Increase Year, (2) a computation of the total Operating Expense Increase payable by Tenant for such Expense Increase Year, (3) an accounting for Estimated Operating Expense Increase payments, if any, made during such Expense Increase Year and (4) the amount of Operating Expense Increase then payable to Landlord, or the credit in respect thereof to which Tenant is entitled, for such Expense Increase Year, taking into account (with respect to any such credit) any increase in Estimated Operating Expense Increase payments due Landlord pursuant to any Estimated Operating Statement also rendered with respect to the then-current Expense Increase Year;

(u) \*

(v) Premises means that space in the Building described in Section 1.1(c) and more particularly identified by diagonal lines or shaded area on the floor plan(s) attached as Exhibit "A" to this Lease;

(w) Rules and Regulations mean the agreements of Tenant concerning the operation and/or use of the Building and/or the Tower Place Complex contained in the attached Exhibit "F", as same may be modified or replaced from time to time by Landlord in its sole, but reasonable, discretion;

(x) Security Deposit means the amount stipulated in Section 1.1(i), which sum has been deposited by Tenant with Landlord under the provisions of Section 3.6;

(y) Tenant's Broker means the entity, if any, designated in Section 1.1 (q);

(z) Tenant's Share means that number, stated as a percentage, determined by dividing the number of rentable square feet in the Premises (which, for purposes of this provision, Landlord and Tenant stipulate to be as set forth in Section 1.1 (e) as of the date hereof) by the number of rentable square feet in the Building (which, for purposes of this provision, Landlord and Tenant stipulate to be as set forth in Section 1.1(f) as of the date hereof). Therefore, Tenant's Share shall be as stated in Section 1.1(k) as of the date hereof;

(aa) Total Rent means, collectively, the Base Rental and the Operating Expense Increase;

(bb) Tower Place Complex means that certain mixed-use development situated on the property more particularly described in Exhibit "B" attached hereto, which development includes, without limitation, a twenty-nine (29)-story office building, a five (5)-story office building, retail facilities, a six (6)-story hotel, surface and deck parking and associated plazas, plazas, sidewalks and other Common Areas, facilities and improvements, as same may be altered, enlarged or reconfigured from time to time. The Building is a portion of the Tower Place Complex; and

(cc) Work Schedule means Exhibit "E" which is attached to this Lease.

## ARTICLE II

### GRANT AND TERM

2.1 PREMISES: Landlord, for and in consideration of the rents, covenants, agreements and stipulations herein contained to be paid, kept and performed by Tenant, has leased and rented, and by these presents leases and rents the Premises to Tenant, and Tenant hereby leases the Premises from Landlord upon all the terms and conditions hereof. No easement for light or air is included in the Premises or given by this Lease. The Premises shall be used for the purpose of general office use and for no other purposes.

2.2 TERM: Tenant takes and accepts the Premises from Landlord upon the terms and conditions herein contained, to have and to hold the same for the Lease Term, unless this Lease terminates earlier. The Lease Term shall begin on the Commencement Date, which shall be, subject to the provisions of the Work Schedule, the later of the Anticipated Commencement Date or the date upon which initial improvements to the Premises, if any, to be made by Landlord in accordance with the Work Schedule have been substantially completed. To the

extent any improvements are to be made by

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Landlord in the Premises in accordance with the Work Schedule, such improvements shall be deemed so be "substantially completed" when Landlord, in its reasonable judgment and in consultation with its architects and/or contractors, certifies to Tenant that (i) such improvements have been substantially completed and (ii) any certificate of occupancy necessary for Tenant's occupancy of the Premises in accordance with the provisions of this Lease has been duly issued.

### ARTICLE III

#### RENT

3.1 BASE RENTAL: Tenant covenants and agrees to pay to Landlord the Base Rental stipulated in Section 1.1(g), as same may be adjusted in accordance with Section 3.2 below. The Base Rental (as so adjusted from time to time) shall be payable monthly in advance in equal installments (initially as set out in Section 1.1 (g), but as hereafter adjusted in accordance with Section 3.2) on the first (1st) day of every calendar month during the Lease Term, prorated as appropriate for partial months. If the Lease Term commences on other than the first day of any calendar month, the first installment of Base Rental shall be a prorated amount based upon the actual number of days in such month and shall be due and payable on the Commencement Date.

3.2 \* See Sepcial Stipulations #1.

#### 3.3 OPERATING EXPENSE INCREASE:

(a) Tenant covenants and agrees to pay to Landlord, as Operating Expense Increase for each Expense Increase Year during the Lease Term, a sum computed by subtracting the Operating Expense Base from the Operating Expenses shown on the Operating Statement for the Expense Increase Year in question, and multiplying the result by Tenant's Share. Under no circumstances shall Tenant be entitled to any refund of or credit against Operating Expenses for any Expense Increase Year should Operating Expenses ever be less than the Operating Expense Base. Within one hundred twenty (120) days after the expiration of each Expense Increase Year, Landlord shall furnish Tenant with an Operating Statement. The Operating Expense Increase shall, except as provided in paragraph (b) of this Section 3.3, be due from Tenant thirty (30) days after the rendering of the Operating Statement for such Expense Increase Year.

(b) Landlord may render an Estimated Operating Statement for any Expense Increase Year. If and when so rendered from time to time, Tenant shall pay to Landlord in advance on the first day of each calendar month the monthly Estimated Operating Expense Increase installments provided for in such Estimated Operating Statement, such payments to continue until another Estimated Operating Statement is rendered. Upon the rendering of an Operating Statement for any Expense Increase Year for which Estimated Operating Expense Increase installments were paid by Tenant, Tenant shall, within thirty (30) days thereafter, pay to Landlord the sum of (x) the excess, if any, of the Operating Expense Increase due for such Expense Increase Year over the monthly Estimated Operating Expense Increase installments paid by Tenant in respect of such Expense Increase Year and (y) the excess, if any, of the Estimated Operating Expense Increase installments due for the current Expense Increase Year, as shown on the current Estimated Operating Statement, over the Estimated Operating Expense Increase installments then being paid by Tenant multiplied by the number of months which shall have elapsed, in whole or in part, since the commencement of the current Expense Increase Year. If Tenant's Estimated Operating Expense Increase installments for the prior or current Expense Increase Year shall exceed the Operating Expense Increase due for the prior Expense Increase Year or the Estimated Operating Expense Increase due for the current Expense Increase Year, respectively, such excess shall first be credited against any amounts shown due on the Operating Statement and the Estimated Operating Statement and the balance, if any, shall be credited against the next succeeding installment or installments of Operating Expense Increase or Estimated Operating Expense Increase becoming due hereunder; provided, however, that if the Lease Term shall expire or this Lease shall terminate prior to full application of such credit, any balance due Tenant shall be refunded to Tenant by Landlord if Tenant is not in default under this Lease (and, if Tenant is in default hereunder, such balance shall be held as additional security for Tenant's performance, may be applied by Landlord toward the cure of any such default and shall not be refunded until any such default is completely cured by Tenant).

(c) Operating Expense Increase shall be prorated on a daily basis for any Expense Increase Year not wholly failing within the Lease Term.

(d) Tenant acknowledges that certain Operating Expenses will vary depending on overall occupancy levels in the Building. If the average occupancy level of the Building was less than ninety-five percent (95%) of the total rentable square footage of the Building during the Base Year or any Expense Increase Year, the actual Operating Expenses for the Base Year or Expense Increase Year in question, as applicable, shall be adjusted to equal Landlord's reasonable estimate of Operating Expenses had ninety-five percent (95%) of the total rentable square footage of the Building been occupied. Landlord and Tenant further acknowledge that the Building is part of the larger Tower Place Complex, and that certain of the costs of management, operation, maintenance, repair and security of the Tower Place Complex from time to time shall be allocated among and shared by two or more of the improvements in the Tower Place Complex (including the Building). It is also understood that certain costs incurred with respect to various facilities surrounding the Building may, from time to time, be allocated (if appropriate) entirely to the Building. The determination of all such costs and their allocation shall be made by

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Landlord in accordance with sound accounting principles. Accordingly, the term "Operating Expenses", as used in this Lease with respect to the Building, shall from time to time include some of the costs, expenses, and taxes enumerated in Exhibit "D" to this Lease which were incurred with respect to and allocated to or shared by the Building in accordance with the foregoing. Notwithstanding the foregoing or anything else contained in this Lease to the contrary, Tenant understands and agrees that its rights to use other portions of the Tower Place Complex of which the Building is a part (including the Common Areas) are those available to the general public and that this Lease does not grant to it additional rights of use. Specifically, but without limitation, nothing in this Lease affords Tenant any rights of parking within the Tower Place Complex except as may be expressly provided in Section 8.27 hereof.

#### 3.4 GENERAL PROVISIONS REGARDING RENT:

(a) The provisions of this Article concerning the payment of Operating Expense Increase shall survive the expiration or earlier termination of the Lease Term as to any and all sums due Landlord up to the date thereof, including Operating Expense Increase due for the last Expense Increase Year, or portion thereof, falling within the Lease Term, which sum shall be paid promptly by Tenant in accordance with the terms of this Article III. Within one hundred twenty (120) days following the expiration or earlier termination of the Lease Term, Landlord shall render a final Operating Statement, certified by Landlord, and Landlord and Tenant shall adjust the Operating Expense Increase payment or credit due Landlord or Tenant, as the case may be, for the last Expense Increase Year of the Lease Term, all in accordance with the foregoing provisions of Section 3.3.

(b) It is understood and agreed that Tenant's payments of Operating Expense Increase shall not be deemed payments of rental as that term is construed in relation to governmental wage and price control or analogous governmental actions affecting the amount of rental which Landlord may charge Tenant. Notwithstanding the foregoing, in the event that such governmental actions or controls prevent the application of all or any part of the provisions of this Article III regarding the payment of Operating Expense Increase, Tenant hereby agrees to pay as monthly rent hereunder the monthly Base Rental plus one-twelfth (1/12) of the Operating Expense Increase which was due for the Expense Increase Year preceding the year of the institution of such actions or controls, but in no case to exceed the maximum rent permitted by such actions or controls.

(c) Tenant covenants and agrees to be liable for and to pay in a timely manner all taxes and assessments levied or assessed against personal property, furniture and fixtures placed by Tenant in the Premises. Further, and in addition to the Base Rental and Operating Expense Increase, Tenant shall reimburse Landlord, within the thirty (30) days after written demand, for any and all taxes payable by Landlord (other than net income taxes), whether or not now customary or within the contemplation of the parties hereto, (i) upon, measured by or reasonably attributable to the cost or value of Tenant's equipment, furniture, fixtures, or personal property located in the Premises, or any leasehold improvements made in or to the Premises by or for Tenant, regardless of whether such improvements were constructed by Landlord or Tenant and regardless of whether title to such improvements shall be in the name of Landlord or Tenant; (ii) upon, measured by or reasonably attributable to the Total Rent payable hereunder, or any component thereof, levied by any governmental body with respect to the receipt of such Total Rent; (iii) upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion thereof; and, (iv) upon this transaction or any document to which Tenant is a party creating or transferring rights, an interest or an estate in the Premises. In the event that it shall not be lawful for Tenant so to reimburse Landlord, the monthly Base Rental payable to Landlord under this Lease shall, to the maximum extent permitted by law, be revised to net Landlord the same net Base Rental after imposition of any such tax upon Landlord as would have been payable to Landlord prior to the imposition of any such tax. Tenant shall also be solely liable for any taxes, including rental, sales and use taxes, assessed directly against Tenant by any governmental authority.

(d) It is understood and agreed that Base Rental and Operating Expense Increase shall be due and payable as provided herein, without set off or deduction whatsoever. Base Rental, Operating Expense Increase and each and every other charge, fee, cost or expense which Tenant is obligated or liable to pay to, refund to or reimburse Landlord shall, for the purposes of the default provisions of this Lease, be deemed additional rental due from Tenant, and Tenant's failure to so pay, refund or reimburse when due shall entitle Landlord to all the remedies provided for herein and at law or in equity on account of failure to pay rent.

(e) Base Rental, Operating Expense Increase and other sums due hereunder shall be paid in legal tender at Manager's address set forth in Section 8.1, or to such other address as may be specified by Landlord by notice given from time to time as provided in such Section 8.1. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of Base Rental or any other component of Total Rent due under this Lease shall be deemed to be other than on account of the earliest Base Rental or other such component of Total Rent due hereunder, nor shall any endorsement or statement on any check or any letter accompanying any check or payment of Total Rent (or any portion thereof) be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Total Rent or to pursue any other remedy provided in this Lease or under applicable law.

(f) Delay by Landlord in providing Tenant with any statements regarding Operating Expense Increase shall not relieve Tenant from the obligation to pay Operating Expense Increase upon the rendering of such statements.

3.5 INITIAL INSTALLMENT: Simultaneously with the execution of this Lease, Tenant has paid to Landlord, and Landlord hereby acknowledges the receipt of, the Initial Installment. Such sum shall be applied by Landlord to the first monthly installment(s) of Base Rental as they become due hereunder. In the event Tenant fails to take possession of the Premises in accordance with all the terms hereof, such sum shall be retained by Landlord for application in reduction, but not in satisfaction, of damages suffered by Landlord as a result of such breach by Tenant.

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3.7 LANDLORD'S SECURITY INTEREST: In addition to any landlord's lien arising at law or by statute, Landlord shall have, at all times, and Tenant hereby grants to Landlord a valid security interest, to secure payment of Total Rent and other sums of money becoming due hereunder from Tenant, and to secure performance by Tenant of any covenant, agreement or condition contained herein, in and upon all goods, wares, equipment, fixtures, furniture, improvements and other personal property of Tenant presently or which may hereinafter be situated in the Premises, and all proceeds therefrom, and such property shall not be removed therefrom without the consent of Landlord until all arrearages in Total Rent as well as any and all other sums of money then due to Landlord hereunder shall first have been paid and discharged and all of the covenants, agreements, and conditions hereof have been fully complied with and performed by Tenant. This provision shall be considered a security agreement and, in consideration of this Lease, upon the occurrence of an Event of Default by Tenant, Landlord may, in addition to any other remedies provided herein, exercise all remedies granted a "Secured Party" under the Uniform Commercial Code in force in the State of Georgia. Without limitation, Landlord may enter upon the Premises and take possession of any and all goods, wares, equipment, fixtures, furniture, improvements, and other personal property of Tenant situated on or in the Premises, without liability for trespass or conversion, and sell the same at public or private sale, with or without having such property at the sale, after giving Tenant reasonable notice of the time and place of any public sale or of the time after which any private sale is to be made, for cash or on credit, or for such price and terms as Landlord deems best, at which sale the Landlord or its assigns may purchase unless otherwise prohibited by law. Unless otherwise provided by law, and without intending to exclude any other manner of giving Tenant reasonable notice, the requirement of reasonable notice shall be met if such notice is given in the manner prescribed in Section 8.1 of this Lease at least five (5) days before the time of sale. Landlord may also, at its option, foreclose the lien created hereby in the manner and form provided for the foreclosure of security instruments or in any other manner permitted by law. The proceeds from any such disposition, less any and all expenses connected with the taking of possession, holding and selling of the property (including reasonable attorneys' fees and other expenses), shall be applied as a credit against the indebtedness secured by the security interest granted in this Section 3.7. Any surplus shall be paid to Tenant or as otherwise required by law, and Tenant shall pay any deficiencies forthwith. Upon request by Landlord, Tenant agrees to execute and deliver to Landlord a financing statement or statements (and continuation statements as necessary) in form sufficient to perfect the security interest of Landlord in the aforementioned property and proceeds thereof under the provisions of the Uniform Commercial Code in force in the State of Georgia. Any statutory or common law lien for rent is not hereby waived, the security interest herein granted being in addition and supplementary thereto.

ARTICLE IV

RIGHTS AND DUTIES DURING LEASE TERM

4.1 PREPARATION OF THE PREMISES:

(a) Tenant acknowledges that it has inspected the Premises, that Landlord has made no representations or warranties whatsoever respecting the condition thereof or otherwise and that, except as may be expressly provided to the contrary in the Work Schedule, Landlord has no obligation or duty to make any alterations, improvements or repairs whatsoever in and to the Premises to make same ready for Tenant's use and occupancy and Tenant takes and accepts the Premises in their present "as is" condition. By occupying the Premises, Tenant shall be deemed conclusively to have accepted the Premises as complying fully with Landlord's covenants and obligations.

(b) Initial improvements to the Premises, if any, shall be governed by the Work Schedule.

(c) If the installation of improvements in the Premises causes an increase in the ad valorem taxes levied or assessed on the Building, Tenant shall reimburse any such increase to Landlord within thirty (30) days following written demand by Landlord as contemplated by Section 3.4(c).

(d) Within thirty (30) days after the Commencement Date, Tenant will execute and deliver to Landlord the Commencement Date Agreement.

4.2 SERVICES: Landlord agrees to provide to Tenant, as Landlord deems reasonably necessary, the following services (the cost of which, unless specifically required to be paid for directly by Tenant, shall be included within Operating Expenses):

(a) General cleaning and janitorial service during the times and in the manner such janitorial service is customarily furnished in similar office buildings in the metropolitan Atlanta, Georgia, area;

(b) Heating, air-conditioning and elevator service daily on Mondays through Fridays, inclusive, from 8:00 A.M. to 6:00 P.M. and on Saturdays from 8:00 AM. to 1:00 P.M., with New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day and other days observed generally as holidays by a majority of the privately-owned businesses in Atlanta, Georgia excepted. At least one elevator per elevator bank shall be operated at all other hours and on all other days. Should Tenant desire either heating or air conditioning at other times, Landlord agrees to provide same upon written request by Tenant delivered to the Building's Manager during normal business hours at least twenty-four (24) hours prior to the time when such service is desired. Any additional service so provided shall be at Tenants expense at such hourly rates as may be determined from time to time by Landlord, which charge Tenant shall promptly pay upon being

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billed therefore. Landlord reserves the right to prohibit the use of heat generating machines and equipment unless and until Tenant makes arrangements, acceptable to Landlord, to install and maintain supplementary air-conditioning equipment in the Premises at Tenant's cost and expense, and the costs of operation of such shall be paid by Tenant on the Base Rental payment dates at such rates as are established by Landlord; provided, however, that the maintenance of such supplementary air-conditioning equipment shall be solely Tenant's, and not Landlord's, duty and responsibility;

(c) 110 volt electric current for lighting and for usual and normal electric power for office space, all from existing electric circuits designated by Landlord for Tenant's use. Landlord reserves the right to meter the Premises or any portion thereof separately, and if the Premises (or any portions thereof) are so separately metered, Tenant shall pay for all electricity furnished to the Premises which is so separately metered. Tenant shall not, without Landlord's prior written consent, use any equipment, including, without limitation, electronic data processing machines, punch card machines, duplicating machines, main frame computers, photocopiers, printers or any other machines which use electric current in excess of 110 volts, which will increase the amount of electricity ordinarily furnished for the use of the Premises as general office space or which require clean circuits or other special distribution circuits. If Tenant desires additional 110 volt electrical power beyond that supplied by Landlord as provided above, electric current in excess of 110 volts, or other special power requirements or circuits, then Tenant may request Landlord to provide such supplemental power to the Premises, which request Landlord may grant or withhold in its reasonable discretion. If Landlord furnishes such power or circuits, Tenant shall pay Landlord, on demand, the cost of the design, installation, and maintenance of the facilities required to provide such additional or special electric power or circuits and the cost of all electric current so provided at a rate not to exceed the actual cost to Landlord for such current. Landlord may require separate electrical metering of such supplemental electrical power or circuits to the Premises, and Tenant shall pay, on demand, the cost of the design, installation, and maintenance of such metering facilities. In no event shall Tenant have access to any electrical closets in the Building, it being agreed that any electrical engineering design or contract work shall be performed by Landlord or an electrical engineer and/or electrical contractor designated by Landlord at Tenant's expense; See Special Stipulation #2

(d) Common use restrooms and toilets with hot and cold running water; and

(e) Drinking water available on each floor of the Building.

4.3 LIABILITY OF LANDLORD: Landlord shall not be liable to Tenant in any manner whatsoever for failure to furnish or delay in furnishing any service or services provided for in this Lease and no such failure or delay shall constitute actual or constructive eviction of Tenant or operate to relieve Tenant from the prompt and punctual performance of each and all the covenants to be performed herein by Tenant. Except in the case of Landlord's negligence, Landlord shall also not be liable to Tenant for damage to person or property caused by defects in, or repairs to, the cooling, heating, electric, water, elevator or other apparatus or systems or by water discharged from sprinkler systems, if any, in the Building; likewise, Landlord shall not be liable to Tenant for the theft, mysterious disappearance, or loss of any property of Tenant whether from the Premises or any part of the Building or Tower Place Complex. Landlord agrees to make reasonable efforts to protect Tenant from interference or disturbance by third persons, including other tenants; however except in the case of Landlord's negligence, Landlord shall not be liable, and Tenant shall not be relieved from its obligations hereunder, for any such interference or disturbance, whether caused by another tenant or tenants of Landlord, or by other persons.

4.4 REPAIRS BY LANDLORD: Landlord shall have no duty to make any repairs or improvements to the Premises except structural repairs and repairs to the Building's base electrical, mechanical and plumbing systems necessary for safety and tenantability, the necessity for which (i) Landlord is notified in writing by Tenant, and (ii) is not brought about by any act or neglect of Tenant, its agents, employees or visitors. Landlord shall not be liable for any failure to make repairs or to perform any maintenance required hereunder unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant in accordance with Section 8.1 of this Lease. Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now, or hereafter in effect.

4.5 RIGHTS OF LANDLORD TO ENTER PREMISES: Tenant shall not change the locks on any entrance to the Premises. Upon Tenant's written request to Landlord, Landlord agrees to make a reasonable change of locks on behalf of Tenant and at Tenant's sole cost and expense. Landlord and its agents, employees and contractors may enter the Premises at such times as Landlord deems reasonably necessary or desirable to inspect and examine same, to make such repairs, additions, alterations, and improvements as Landlord desires to make to the Building, including, without limitation, the erection, use and maintenance of pipes and conduits, to supply janitorial service and any other service to be provided by Landlord to Tenant hereunder, and to exhibit the Premises to prospective purchasers or tenants. In the event of emergency, or if otherwise necessary to prevent injury to persons or damage to property, such entry to the Premises may be made by force without any liability whatsoever on the part of Landlord for any resulting damage. Landlord may also take any and all needed materials into and through the Premises that may be required to make such repairs, additions, alterations, and improvements, all without being liable to Tenant in any manner whatsoever. During such time as such work is being carried on, provided such work is carried out in a manner so as not unreasonably to interfere with the use and occupancy of the Premises by Tenant, Total Rent (nor any portion thereof) shall in no way abate, and, regardless of Landlord's fault, Tenant waives any claim and cause of action against Landlord for damages by reason of loss or interruption to Tenant's business and profits therefrom

because of the prosecution of any such work.

4.6 AGREEMENTS OF TENANT: Tenant agrees that it shall:

(a) at its own expense and except for the obligations of Landlord expressly stated in Section 4.4 of this Lease, keep the Premises in good repair and tenantable condition and indemnify Landlord against any loss, damage, or expense arising by any failure of Tenant so to do or due to any act or neglect of Tenant, its employees, agents or visitors;

(b) make no alterations or additions of any kind in or to the Premises or the Building without first obtaining Landlord's written consent which shall not be unreasonably withheld; all such work, including additions, fixtures and leasehold improvements (but not including moveable office furniture and equipment and other personal property of Tenant), made or placed in or upon the Premises or the Building either by Tenant or Landlord shall be and become Landlord's property at the end of the Lease Term, all without compensation or payment to Tenant, and shall remain upon and in the Premises, during and at the termination of the Lease Term;

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(c) not use the Premises for any illegal purpose or violate any statute, regulation, rule or order of any governmental body, nor create or allow to exist any nuisances or trespasses, nor do any act in or about the Premises or bring anything onto or into the Premises which will in any way increase the rate of insurance on the Premises or reduce the value of the Building or its attractiveness to other tenants, nor will Tenant deface or injure the Premises or commit or allow waste to be committed on any portion thereof or overload any floor of the Premises;

(d) at its sole expense comply, as to its use of the Premises, with all statutes, regulations, rules, ordinances and orders of any governmental body, department or agency thereof, and abide by and observe the Rules and Regulations;

(e) indemnify and hold Landlord harmless from and against any and all loss, cost, damage, expense, or liability whatsoever, including, without limitation, court costs and reasonable attorneys' fees, imposed on Landlord by any person whomsoever, caused in whole or in part by an act or omission of Tenant or its agents, employees, invitees, licensees, contractors, subtenants or assignees (the provisions of this Subsection to survive expiration or termination of this Lease with respect to any act or omission occurring prior to such expiration or termination);

(f) report immediately in writing to Landlord any defective condition in or about the Premises known to Tenant, and a failure so to report shall make Tenant liable to Landlord for any expense or damage to Landlord resulting from such defective condition;

(g) pay interest to Landlord on demand, at the rate of one and one-half percent (1 1/2%) per month or the maximum rate permitted by law, whichever is lower, on any installment of Total Rent not paid when due, accruing from the due date until paid;

(h) pay to Landlord on demand, in the event that Landlord elects to accept a payment of any part of the Total Rent which is not received by Landlord within seven (7) days of its due date, a late charge in an amount equal to the greater of Fifty Dollars (\$50.00) or five percent (5%) of the total outstanding amount due (which late charge represents an agreed upon charge for Landlord's administrative expenses in processing late payments, and is not a payment for the use of money or a penalty); provided, however, nothing contained herein shall be deemed to require Landlord to accept any payment of Total Rent received by Landlord after the due date;

(i) pay to Landlord a processing and handling fee of Fifty Dollars (\$50.00) for any check of Tenant's which is returned to Landlord because of insufficient funds, as liquidated damages to compensate Landlord for its additional administrative costs and expenses in handling such items, it being agreed that the exact amount thereof would be difficult or impossible to ascertain;

(j) cooperate with Landlord in complying with all regulations of the United States Department of Energy and of any governmental agency having jurisdiction of the Building and/or Tower Place Complex, relating to the conservation of energy, including, without limitation, any regulations requiring the production of information regarding the consumption of energy within the Building and/or Tower Place Complex, and Tenant shall indemnify and hold Landlord harmless from and against any loss, cost, damage, or liability arising out of any violation of any such regulations by Tenant, its employees, agents, contractors, invitees, licensees, subtenants and assignees; and

(k) install telephone service to the Premises only from the telephone circuits designated by Landlord in writing as those serving the Premises; if Tenant requires additional telephone service capacity for the Premises, such capacity must be provided by a telecommunications provider approved by Landlord, at no cost to Landlord, and the design and installation of such supplemental capacity shall be subject to the reasonable approval of Landlord.

4.7 SIGNS: Tenant shall obtain the written approval of Landlord prior to placing and maintaining, or causing or permitting to be placed and maintained, any sign, advertising matter or other thing of any kind, on the exterior of the Premises, or any decorating, lettering or advertising matter on any exterior door to the Premises. Tenant shall not affix or attach anything to windows in the Premises or, without Landlord's prior written consent in each instance (which may be given on such condition as Landlord may reasonably elect), place signs or similar matter on the Premises which will be visible from outside the Premises. All exterior and elevator lobby signs shall, unless Landlord otherwise specifically consents in writing, conform to uniform Building sign specifications promulgated by Landlord and Landlord shall provide and install same at Tenant's cost and expense.

4.8 BUILDING NAME: Tenant acknowledges that the Building is part of the Tower Place Complex known generally as "Tower Place." Tenant covenants and agrees to cause all directory listings, advertising and all other printed or written material containing Tenant's address at the Premises accurately to refer to "Tower Place" or any other name given the Building and/or Tower Place Complex by Landlord in accordance herewith; however, Tenant shall not, without the prior written consent of Landlord, use the name Tower Place or any other name given the Building or Tower Place Complex, or any other deceptively similar name, or any associated service mark or logo of the Building and/or Tower Place Complex for any purpose other than Tenant's business address and Tenant, under no circumstances, shall use the word "Courtyard" in any signage or advertisement. Upon written notice to Tenant, Landlord reserves the right, from time to time and at its sole option, to name or change the name of the Building and/or Tower Place Complex and to change the street address of the Building.

4.9 HAZARDOUS MATERIALS:



(a) Tenant hereby covenants that, from and after the date hereof and thereafter during the Lease Term, Tenant shall not cause or permit any "Hazardous Substances" (as hereinafter defined) to be placed, held, located or disposed of in or about the Premises or the Tower Place Complex or any part of either and that neither the Premises nor the Tower Place Complex, nor any part of either, shall ever be used by Tenant or persons claiming under Tenant as a storage site (whether permanent or temporary) for any Hazardous Substances. For purposes of this Section 4.9, "Hazardous Substances" shall mean and include those elements or compounds which are contained in the list of hazardous substances adopted by the United States Environmental Protection Agency (EPA) or the list of toxic pollutants designated by Congress or the EPA or which are defined as hazardous, toxic, pollutant, infectious or radioactive by any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to or imposing liability (including, without limitation, strict liability) or

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standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect (collectively "Environmental Laws").

(b) Tenant hereby agrees to comply with all Environmental Laws with regard to its use and occupancy of the Premises and to indemnify Landlord and hold Landlord harmless from and against any and all losses, liabilities, including strict liability, damages, injuries, expenses, including reasonable attorneys' fees, costs of any settlement or judgment and claims of any and every kind whatsoever paid, incurred or suffered by, or asserted against, Landlord by any person, entity or governmental agency for, with respect to, or as a direct or indirect result of Tenant's failure to comply or the presence in, or the escape, leakage, spillage, discharge, emission, or release from, the Premises of any Hazardous Substance (including, without limitation, any losses, liabilities, including strict liability, damages, injuries, expenses, including reasonable attorneys' fees, costs of any settlement or judgment or claims asserted or arising under the Comprehensive Environmental Response, Compensation and Liability Act, any so-called federal, State or local "Superfund" or "Superlien" laws or any other Environmental Law); provided, however, that the foregoing indemnity is limited to matters arising solely from Tenant's violation of the covenant contained in Subsection 4.9(a) above.

(c) In the event Landlord suspects, in its reasonable opinion, that Tenant has violated any of the covenants contained in this Section 4.9, or that the Premises, Retail Complex or Tower Place Complex are not in compliance with the Environmental Laws for any reason as to which Tenant is responsible hereunder, or that the Premises, Retail Complex or Tower Place Complex are not free of Hazardous Substances for any reason as to which Tenant is responsible hereunder, Tenant shall take such steps as Landlord requires by written notice to Tenant in order to confirm or deny such occurrences, including, without limitation, the preparation of environmental studies, audits, surveys or reports. In the event that Tenant fails to take such action, Landlord may take such action and shall have such access to the Premises as Landlord deems necessary, and the costs and expenses of all such actions taken by Landlord, including, without limitation, Landlord's attorneys' fees, shall be due and payable by Tenant upon demand therefor from Landlord as additional rent hereunder. If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of hazardous materials, then the reasonable costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional charges if such requirement applies to the Premises. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief concerning the presence of hazardous substances or materials on the Premises. Further, Landlord reserves the right at any time and from time to time to enter the Premises following reasonable advance notice thereof to Tenant (except in cases of emergency) in order to perform periodic environmental studies, audits, surveys and reports and in order to determine whether Tenant is in compliance with the terms of this Section 4.9.

(d) The obligations and liabilities of Tenant under this Section 4.9 shall survive the expiration or earlier termination of this Lease or other enforcement of Landlord's remedies under this Lease.

#### 4.10 INSURANCE:

(a) Tenant agrees that it shall carry fire and extended coverage insurance insuring Tenant's interest in its improvements and betterments to the Premises and any and all furniture, equipment, supplies, and other property owned, leased, held or possessed by it and contained therein, in an amount equal to the full insurable values thereof (it being understood that no lack of inadequacy of insurance by Tenant shall in any event make Landlord subject to any claim by virtue of any theft of or loss or damage to any uninsured or inadequacy insured property).

(b) Tenant shall also procure and maintain throughout the Lease Term business interruption insurance in an amount that will reimburse Tenant for direct or indirect loss of earnings attributable to all perils insured against under this Section or attributable to the prevention of access to the Premises by civil authority, and sufficient to reimburse Tenant for Total Rent in the event of a casualty to, or temporary taking of, the Building or the Premises.

(c) Tenant shall also procure and maintain throughout the Lease Term a policy or policies of insurance, insuring Tenant, Landlord, Manager and any other persons designated by Landlord, against any and all liability for injury to or death of a person or persons and for damage to property occasioned by or arising out of any construction work being done on the Premises, or arising out of the condition, use, or occupancy of the Premises, or in any way occasioned by or arising out of the activities of Tenant, its agents, employees, or licensees in the Premises, or other portions of the Building or Tower Place Complex, in amounts not less than \$1,000,000 with respect to injuries to or death of any one person, \$1,000,000 with respect to any one casualty or occurrence and \$1,000,000 with respect to property damage, or such higher annual policy aggregate limits as Landlord may reasonably require from time to time during the Lease Term. Tenant shall also carry or procure any other form or forms of insurance or any changes or endorsements to the insurance required herein as Landlord or any Mortgagee (as hereinafter defined) or lessor of Landlord may reasonably require, from time to time, in form or in amounts.

(d) Landlord and Tenant shall each have included in all policies of insurance respectively obtained by them with respect to the Building and/or the Premises a waiver by the insurer of all right of subrogation against the other in connection with any loss or damage thereby insured against. So long as both Landlord's and Tenant's policies then in force include such mutual waiver of subrogation, Landlord and Tenant, to the fullest extent permitted by law, each waive all right of recovery against the other for and agree to release the other from liability for, loss or damage to the extent such loss or damage is covered by valid and collectible insurance in effect at the time of such loss or damage.

If such waiver of subrogation shall not be obtainable or shall be obtainable only at a premium over that chargeable without such waiver, the party seeking such waiver shall notify the other thereof in writing, and the latter shall have ten (10) days in which either (i) to procure on behalf of the notifying party insurance with such waiver from a company or companies reasonably satisfactory to the notifying party or (ii) to agree to pay such additional premium (in Tenant's case, in the proportion which the rentable area of the Premises bears to the area covered by the insurance policy of Landlord in question).

(e) All insurance policies procured and maintained by Tenant pursuant to this Subsection 4.10 shall be carried with companies licensed to do business in the State of Georgia reasonably satisfactory to Landlord and shall be noncancelable except after thirty (30) days' written notice to Landlord and any designees of Landlord. Such policies or duly executed certificates of insurance with respect thereto shall be delivered to Landlord prior to the date that Tenant takes possession of the Premises, and renewals thereof as required shall be delivered to Landlord at least thirty (30) days prior to the expiration of each respective policy term. If Tenant shall fail to procure or maintain any insurance required of Tenant

hereunder, Landlord may, at its sole option, but shall not be required to, procure and maintain the same at the cost and expense of Tenant, and Tenant agrees to reimburse Landlord for same as additional rent due hereunder within fifteen (15) days after receiving notice of the amount thereof from Landlord.

4.11 LIENS: No work performed by Tenant in the Premises, whether pursuant to this Lease or otherwise, whether in the nature of erection, construction, alteration, addition, improvement, remodeling or repair, shall be deemed to be for the immediate use and benefit of Landlord, and no mechanic's, materialman's or other lien shall be allowed against the estate of Landlord by reason of any consent given by Landlord to Tenant to improve the Premises. Tenant shall pay promptly all persons furnishing labor or materials with respect to any work performed by Tenant or its contractor on or about the Premises and Tenant shall discharge of record within twenty (20) days following the filing thereof, by payment or bonding, any mechanic's lien filed against the Premises, the Building or the Tower Place Complex for work or materials claimed to have been furnished to Tenant.

## ARTICLE V

### ASSIGNMENT AND SUBLETTING

#### 5.1 ASSIGNMENT AND SUBLETTING:

(a) Tenant shall not, without the prior written consent of Landlord, which shall not be unreasonably withheld, assign, hypothecate, or otherwise transfer this Lease or any interest hereunder, or sublet the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant. Landlord's consent or refusal to consent to a proposed assignment or sublease must be an action which is taken reasonably and in good faith. For the purposes of the immediately preceding sentence, Landlord shall be deemed to be acting reasonably and in good faith in determining whether to consent to a proposed assignment or sublease when Landlord considers such factors as, without limitation, the identity and business reputation of the proposed assignee or subtenant, the relationship of the proposed assignee or subtenant to the tenant mix in the Building and/or the Tower Place Complex, the type or nature of the proposed assignee's or subtenant's business, the creditworthiness of the proposed assignee or subtenant, and any agreement or leasing restrictions with existing tenants or other third parties that prohibit or restrict Landlord from leasing to the proposed assignee or subtenant. Tenant agrees to pay to Landlord as additional rental, on demand, a Five Hundred Dollar (\$500.00) administrative processing fee in connection with any request by Tenant for consent to a proposed assignment or subletting and, in addition, reasonable out-of-pocket costs incurred by Landlord (including, without limitation, attorneys' fees) in connection with any request by Tenant for Landlord to consent to any assignment or subletting by Tenant. All monies so paid shall be non-refundable in any event, regardless of whether Landlord consents to the proposed assignment or subletting. Any assignment or sublease shall not nullify these provisions, and all later assignments or subleases shall be made likewise only after the prior written consent of Landlord is obtained in each instance.

(b) No sublease or assignment by Tenant shall relieve Tenant of any liability hereunder. Without limiting the foregoing, if, with the consent of Landlord, this Lease is assigned or the Premises or any part thereof is sublet or occupied by any party other than Tenant, Landlord may, after default by Tenant, collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the Total Rent herein reserved, but no such assignment, subletting, occupancy, or collection shall be deemed (i) a waiver of any of Tenant's covenants contained in this Lease, (ii) the acceptance by Landlord of the assignee, subtenant, or occupancy as Tenant hereunder, or (iii) the release of Tenant from further performance by Tenant of its covenants under this Lease.

(c) The occupancy of the Premises by any successor firm or entity of the Tenant or by any firm or entity into which or with which the Tenant may become merged or consolidated shall be deemed an assignment of this Lease requiring the prior written consent of Landlord.

(d) Notwithstanding the giving by Landlord of its consent to any assignment or sublease with respect to the Premises, no such assignee or sublessee may exercise any expansion option, right of first refusal option, or renewal option under this Lease, nor shall any such party have the benefit of any specific signage or other similar privileges or rights which may be provided to Tenant under this Lease except in accordance with a separate written agreement entered into directly between such assignee or sublessee and Landlord. After a permitted assignment or subletting, the original Tenant shall have no right to exercise on behalf of a permitted assignee or sublessee as to the space assigned or sublet any expansion option, right of first refusal option or renewal or extension option.

(e) Should Landlord permit any assignment or subletting by Tenant and should the monies received as a result of such assignment or subletting (when compared to the monies still payable by Tenant to Landlord) be greater than Landlord would have received hereunder had not Landlord permitted such assignment or subletting, then fifty percent (50%) of the "Gross Profit", shall be payable by Tenant to Landlord, it being the parties' intention that Landlord, in consideration of Landlord's permitting such assignment or subletting, shall receive fifty percent (50%) of any Gross Profit from any such assignment or subletting. Further, should the assignment or subletting giving rise to the Gross Profit be arranged by Landlord (or its Manager) on Tenant's behalf (it being understood that neither Landlord nor its Manager shall have any obligation to arrange for same), one hundred percent (100%) of the Gross Profit shall be paid to Landlord.

## ARTICLE VI

### DEFAULT AND REMEDIES

6.1 EVENTS OF DEFAULT: The occurrence of any of the following shall constitute "Events of Default" (each an "Event of Default"):

(a) Any part, portion or component of the Total Rent, or any other sums payable under this Lease, or otherwise, not received when due;

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(b) The Premises are deserted, vacated, or not used as regularly or consistently as would normally be expected for similar premises put to the same or similar purposes as set forth in Section 2.1, even though Tenant continues to pay Total Rent;

(c) Any petition is filed by or against Tenant under any section or chapter of the Federal Bankruptcy Code, and, in the case of a petition filed against Tenant, such petition is not dismissed within sixty (60) days after the date of such filing;

(d) Tenant becomes insolvent or transfers property in fraud of creditors;

(e) Tenant makes an assignment for the benefit of creditors;

(f) A receiver is appointed for any of the Tenants assets; or

(g) Tenant breaches or fails to comply with any term, provision, condition or covenant of this Lease, other than the payment of Total Rent, or any of the Rules and Regulations, excepting Tenant shall not be deemed in default if it commences to cure said default in a timely manner and diligently proceeds to cure said default expeditiously.

## 6.2 REMEDIES:

(a) Upon the occurrence of an event of default, Landlord shall have the option to do and perform any one or more of the following, in addition to, and not in limitation of, any other right or remedy available to Landlord at law or in equity or elsewhere under this Lease if the events of default described in Subsections 6.1(a) or (b) are not cured within five (5) days after written notice by Landlord of such default, if the events described in Subsection 6.1(g) are not cured within twenty (20) days after written notice of such default (unless such default gives rise to immediate threat to person or property, in which case such event of default shall immediately entitle Landlord to its rights and remedies) or if any of the other events of default are not cured immediately:

(i) terminate this Lease, in which event Tenant shall immediately surrender the Premises to Landlord, but if Tenant shall fail to do so, Landlord may, without further notice and without prejudice so any other remedy Landlord may have for possession or arrearages in Total Rent, enter upon the Premises and expel or remove Tenant and Tenant's effects, by force if necessary, without being subject to prosecution or liable for any claim for damages therefore; and Tenant agrees to indemnify Landlord for all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the Premises, or through decrease in rent, or otherwise (such agreement to survive any such termination of this Lease); and/or

(ii) terminate Tenant's right of possession of the Premises without terminating this Lease, and enter the Premises as the agent of Tenant, by force if necessary, without being subject to prosecution or liable for any claim for damages therefore, and relet the Premises as the agent of Tenant without advertisement and by private negotiations and or any term Landlord deems proper, and receive the rent therefor, and Tenant shall pay Landlord upon demand any deficiency that may arise by reason of such reletting, but Tenant shall not be entitled to any surplus funds generated by such reletting; Tenant shall reimburse Landlord for all costs of reletting the Premises, including, but not limited to, advertising expenses, commissions, and the cost of improvements reasonably required in order to relet the Premises; and/or

(iii) as agent of Tenant, do whatever Tenant is obligated to do by the provisions of this Lease and enter the Premises, by force if necessary, without being subject to prosecution or liable for any claims for damages therefor, in order to accomplish this purpose; Tenant agrees to reimburse Landlord immediately upon demand for any expenses which Landlord may incur in thus effecting compliance with this Lease on behalf of Tenant, and Tenant further agrees that Landlord shall not be liable for any damages resulting to Tenant from such action, whether caused by the negligence of Landlord or otherwise; and/or

(iv) collect as liquidated damages and not as a penalty, and in addition so all Total Rent and other amounts previously due and unpaid under the terms and conditions of the Lease, the accelerated present value of the Total Rent, and all other sums provided herein to be paid by Tenant during the remainder of the Lease Term (the "Rent Balance"), less the Net Rental Value of the Premises, as hereinafter defined; the term "Net Rental Value" shall mean the fair rental value of the Premises for the remainder of the Lease Term reduced to present value, less the Landlord's costs, expenses and attorneys' fees in connection with the preparation of the Premises for reletting and for the reletting itself; provided, however, the parties agree that in no event shall the Net Rental Value exceed the Rent Balance; the parties further agree that the damages caused by the Tenant's default would be difficult or impossible accurately to estimate and that this measure of damages is a reasonable pre-estimate of the Landlord's probable loss resulting from Tenant's breach; the acceptance of the liquidated damages set forth in this paragraph shall not constitute a waiver of any failure of Tenant thereafter occurring to comply with any term, provision, condition or covenant of this Lease.

(b) If Landlord exercises any of the remedies set forth in Section 6.2(a) or under Georgia law, in addition to all other costs and expenses Landlord shall be entitled to recover under this Lease, Landlord shall also be entitled to recover:

(i) the cost of performing any other covenants which would have otherwise been performed by Tenant;

(ii) the amount of any rental abatement or other rental

concession provided by Landlord to Tenant; provided, however, that in no event shall Tenant's liability hereunder exceed the Total Rent due under this Lease;

(iii) all sums expended by Landlord, and not previously reimbursed to Landlord by Tenant, in connection with improving or repairing the Premises to Tenant's specifications; and

(iv) all costs and expenses incurred by Landlord in connection with the termination of this Lease and eviction of Tenant.

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ARTICLE VII

DESTRUCTION OR DAMAGE: CONDEMNATION

7.1 DESTRUCTION OF OR DAMAGE TO PREMISES: If because of fire, the elements, or Act of God, the Premises or the Building is either destroyed or damaged so as to render the Premises wholly unfit for occupancy, or if, in the judgment of Landlord, the damage resulting cannot be repaired within sixty (60) days from such damage, then at the option of Landlord to be exercised by giving written notice to Tenant within sixty (60) days following the date of such damage, this Lease shall terminate on the date of such election, and Tenant shall immediately surrender the Premises to Landlord. In such event, and regardless of whether Landlord elects to terminate this Lease, Tenant shall continue to owe and pay Total Rent up to but not beyond the time of such surrender, but Total Rent shall abate in proportion to the number of square feet of rentable area of the Premises rendered unusable by such damage. Under no circumstances shall Landlord be liable to Tenant for inconvenience, annoyance, loss of profits, expenses, or any other type of injury or damage resulting from the repair of any such damage, or from any repair, modification, arranging, or rearranging of any portion of the Premises or any part or all of the Building or for termination of this Lease as provided above. Tenant assumes the risks of any and all damage to its personal property in or on the Premises and from any casualty whatsoever.

7.2 EMINENT DOMAIN: If all of the Premises or the Building is taken, or if such a part of either is taken so as to render the remainder thereof unsuitable for Landlord's or Tenant's purposes, for any public or quasi-public use by eminent domain or by private purchase in lieu thereof, this Lease shall terminate at the option of either Landlord or Tenant on the date that the condemning authority actually takes possession of the part condemned. If this Lease is not so terminated, or upon a taking not within the scope of the foregoing, Total Rent shall abate for the period of such taking in proportion to the area of the Premises taken. In no event shall Tenant have any right or claim to any part of any award made to or received by Landlord for such taking, or against Landlord or the condemning authority for the value of any unexpired term of this Lease, and Tenant hereby assigns any such claim to Landlord. Nothing herein contained, however, shall preclude Tenant from claiming, proving and receiving from the condemning authority a separate award for the value of any of Tenant's personal property taken which Tenant could have rightfully removed from the Premises hereunder and for relocation and moving expenses, so long as the Landlord's award is not thereby reduced.

7.3 DETERMINATION OF TIME REQUIRED TO REBUILD: Within ten (10) business days following any casualty described in Section 7.1, or any taking described in Section 7.2, Landlord shall give Tenant a notice stating (a) Landlord's estimate of the portion of the Premises rendered untenable as a result of such casualty or taking and (b) Landlord's estimate of the time required for restoration. If Landlord and Tenant do not agree within ten (10) days after the casualty or taking as to the length of time which would be required for restoration, the issue shall be submitted, promptly, by both parties, or either party, to the president or principal officer of the Atlanta, Georgia, Chapter of the American Institute of Architects (or successor thereto) whose determination shall be binding upon the parties. Landlord and Tenant shall share equally in the cost of obtaining the opinion of said person.

7.4 PARTIAL DESTRUCTION OR TAKING: If the Premises are damaged as a result of a casualty described in Section 7.1 or a taking described in Section 7.2 but this Lease is not terminated as a result of such casualty or taking, all rental shall abate in proportion to the amount of the Premises which shall have been rendered unusable; provided, however, that Tenant's obligation to pay Total Rent shall not cease or abate if the damage to the Premises or the Building was caused through the negligence or willful misconduct of Tenant, its agents, employees, contractors, invitees, licensees, subtenants, or assignees. Further, in such a case, Landlord will promptly, at its sole cost and expense, restore, replace or rebuild the same as nearly as possible to the structural and architectural condition existing immediately prior to such casualty or taking and as expeditiously as practicable but within a period beginning on the earliest date upon which the time required for restoration has been determined and any options of Landlord or Tenant to terminate this Lease, if any, have expired, and having a length not exceeding one hundred twenty-five percent (125%) of the length of time required to rebuild as determined pursuant to Section 7.3 as the same may be extended pursuant to Section 8.23, whereupon full rental shall recommence. If the damage or seizure affects more than twenty-five percent (25%) of the area of the Premises, or such a fraction that would leave the remainder of the Premises untenable and Landlord fails to complete such restoration, replacement or rebuilding within such period, Tenant shall be entitled at any time up to the earlier of ten (10) days following the expiration of the time permitted for restoration or the actual date of completion of restoration, replacement or rebuilding, by notice to Landlord, to terminate this Lease as of a date not more than sixty (60) days following the date of such notice. Notwithstanding anything herein contained to the contrary, Landlord shall have no obligation to repair any improvements to the Premises constructed by Tenant or Tenant's agents or contractors or, if constructed or installed by Landlord, any improvements required to be insured by Tenant in accordance with the provisions of this Lease (unless insurance proceeds for repair are made available to Landlord) and Tenant shall, upon substantial completion by Landlord of its repairs required hereunder, promptly and diligently and at its sole cost and expense, repair and restore any improvements to the Premises made by Tenant, as well as Tenant's contents, to the condition thereof prior to such destruction or damage.

See Special Stipulation #3

ARTICLE VIII

ADDITIONAL PROVISIONS



8.1 ADDRESSES-NOTICES:

(a) Except for legal process which may also be served as provided by law, all notices required or desired to be given with respect to this Lease shall be in writing and shall be delivered (a) by certified or registered mail, return receipt requested, with proper postage prepaid and addressed to the party as set out below, or (b) by hand delivery to the address set out below. Any such notice or demand shall be effective and deemed delivered and received on the date given by hand delivery, or on the date of deposit with the United States mail in the manner aforesaid for notices given by registered or

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certified mail; provided that the period of time in which a response to a mailed notice must be given or taken shall run from the date of receipt as indicated on the return postal receipt. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given shall be deemed receipt of the notice, demand or request sent. Any party may change its address for notices to any other location within the continental United States by notifying the other parties of the new address in the manner provided herein for the giving of notices, with such change to become effective ten (10) days after notice of the change of address is given. For the purposes hereof, notices to Tenant shall be sent to the addresses set out in Section 1.1(n). Notices to Landlord and Manager shall be sent to the following addresses:

(i) To Landlord:

Tower Place, L.P.  
c/o Regent Partners, Inc.  
3348 Peachtree Road, NE  
Suite 1000  
Atlanta, Georgia 30326  
Attn: Debra Cobbs

(With a copy of any notice sent to Landlord sent also to Manager at Manager's address set forth as provided herein); and

(ii) To Manager:

Regent Partners, Inc.  
Tower Place  
3348 Peachtree Road, NE  
Suite 1000  
Atlanta, Georgia 30326  
Attn: Property Manager

(b) Tenant hereby designates and appoints as its agent to receive notice of all dispossessory or distraint proceedings the person in charge of or occupying the Premises at the time such notice is given, or, if there is no such person, then such service of notice may be made by attaching it on the main entrance of the Premises.

(c) In the event that Landlord gives notice to Tenant of the name and address of any holder of a Landlord's Mortgage (such holder being herein referred to as a "Mortgagee"), Tenant agrees to send to any such Mortgagee, by certified mail, a copy of any notice of default given by Tenant to Landlord. Tenant further agrees that if such default is not cured by Landlord, the Mortgagee shall be allowed thirty (30) days in which to cure the default or, if the default cannot be cured within the thirty (30)-day period, to begin diligently pursuing such cure. Nothing herein contained shall in any way obligate the Mortgagee to cure or pursue the cure of any such default.

8.2 MANAGER: Landlord shall have the right to delegate any and all of its obligations under this Lease to an entity engaged in the operation and management of office buildings in the metropolitan area of Atlanta, Georgia (any such entity herein referred to as "Manager"). Such delegation shall not, however, relieve Landlord of any such obligations. The initial Manager is as stated in Section 1.1(o) and such Manager's address is set out in Section 8.1(a) above. Landlord may designate a replacement Manager at any time and from time to time by notice to Tenant.

8.3 SURRENDER OF PREMISES: Upon the expiration or other termination of the Lease Term, as the same may have been extended, Tenant shall promptly quit and surrender to Landlord the Premises (and the keys thereto), together with all improvements belonging to Landlord, free of debris, broom clean, ordinary wear and tear excepted, and Tenant shall remove all of its personal property required or permitted to be removed hereunder; provided, however, that Tenant shall not be permitted to remove any movable furniture, personal property, or equipment from the Premises at any time, including at the end of the Term or any renewal thereof or other sooner termination of this Lease, if Tenant is then in material default under this Lease. All such property not promptly removed by Tenant shall be deemed abandoned by Tenant, and title to the same shall pass to Landlord under this Lease as by a bill of sale.

8.4 HOLDING OVER: Should Tenant remain in possession of the Premises after the expiration or other termination of the Lease Term, Tenant shall be a tenant at sufferance (absent a written agreement to the contrary signed by Landlord) at a rental rate equal to one hundred fifty percent (150%) of the Total Rent then applicable hereunder, and otherwise on the same terms and conditions as herein provided as applicable to a tenancy at sufferance. In addition, Tenant shall indemnify and hold harmless Landlord from all loss or damage which may result from Tenant's holding over. Without limiting the foregoing, Tenant shall indemnify Landlord against all claims made by any other Tenant or prospective Tenant against Landlord resulting from such delay by Landlord in delivering possession of the Premises to such tenant or prospective Tenant. Nothing herein shall be construed as constituting Landlord's consent or approval to any such holdover, nor operate to preclude or inhibit the exercise by Landlord of all of its rights and remedies hereunder or available under applicable law to dispossess or evict Tenant. There shall be no renewal of this Lease by operation of law.

8.5 BROKERS: Except with respect to Landlord's Broker (whose commission Landlord shall pay) and Tenant's Broker, if any, (to whom Landlord's Broker is obligated to pay a portion of such commission in accordance with a separate written agreement between Landlord's Broker and Tenant's Broker), Tenant and Landlord each represents and warrants to the other that no broker, agent, commission salesman or other person has represented the warranting party in the negotiations for and procurement of this Lease and of the Premises, and that no commissions, fees or compensation of any kind are due and payable in connection herewith to any such person or entity. The individual(s) executing this

Agreement on behalf of Tenant hereby swear to and for the benefit of Landlord, any lender of Landlord holding a lien or security title interest in and to all or any portion of the Building, any attorney certifying title to the Building and any title insurance company insuring title to all or any portion of the Building that (a) except for Tenant's Broker, if any, (i) all fees, commissions, compensation or other amounts payable to any and all real estate brokers engaged by Tenant in connection with the Lease have been paid in full, or (ii) the rights of any and all real estate brokers engaged by Tenant to file any lien, notice of lien or claim of lien under O.C.G.A. Section 44-14-600 et seq. have been waived in writing by such broker, and (b) except for the commission payable by

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Landlord to Tenant's Broker, in accordance with the separate written agreement between Landlord's Broker and Tenant's Broker, if any, all fees, commissions, compensation or other amounts payable to Tenant's Broker in connection with this Agreement have been paid in full. Each party further warrants that any compensation arrangement with the parties excepted from the foregoing warranty has been reduced to writing in its entirety in a separate agreement signed simultaneously with or before this Lease by the party against whom the commission or compensation is charged. Each party agrees to indemnify and hold the other harmless from and against any claim for any such commissions, fees, or other form of compensation by any such third party claiming through the indemnifying party, including, without limitation, any and all claims, causes of action, damages, costs and expenses (including attorneys' fees) associated therewith.

8.6 WAIVER OF RIGHTS: No failure or delay by Landlord to exercise any right or power given it or to insist upon strict compliance by Tenant with any obligation imposed on it, and no custom or practice of either party hereto at variance with any term hereof shall constitute a waiver or a modification of the terms hereof by Landlord or any right it has herein to demand strict compliance with the terms hereof by Tenant. This Lease contains the sole and entire Agreement of Landlord and Tenant and no prior or contemporaneous oral or written representation or agreement between the parties and affecting the Premises shall have legal effect. No representative, agent or employee of Landlord has or shall have any authority to waive any provision of this Lease unless such waiver is expressly made in writing and signed by an authorized representative of Landlord.

8.7 WAIVER OF HOMESTEAD AND EXEMPTION: BANKRUPTCY OF TENANT:

(a) Tenant hereby waives and renounces all homestead or exemption rights which Tenant may have under or by virtue of the Constitution and Laws of the United States, Georgia, or any other State as against any debt Tenant may owe Landlord under this Lease, and hereby transfers, conveys, and assigns to Landlord all homestead or exemption rights which may be allowed or set apart to Tenant, including such as may be set apart in any bankruptcy proceeding, to pay any debt owing by Tenant to Landlord hereunder.

(b) Tenant acknowledges that this Lease is a lease of nonresidential real property and therefore agrees that Tenant, as the debtor in possession, or the trustee for Tenant (collectively, the "Trustee") in any proceeding under Title 11 of the United States Bankruptcy Code, as amended (the "Bankruptcy Code"), relating to bankruptcy, shall not seek or request any extension of time to assume or reject this Lease or to perform any obligations of this Lease which arise from or after the order of relief. Further, Tenant agrees as follows:

(i) If the Trustee proposes to assume or to assign this Lease or sublet the Premises (or any portion thereof) to any person or entity which shall have made a bona fide offer to accept an assignment of this Lease or a subletting on terms acceptable to the Trustee, then the Trustee shall give written notice to Landlord and any Mortgagee of which Tenant has notice, setting forth the name and address of such person or entity and the terms and conditions of such offer, no later than twenty (20) days after receipt of such offer, but in any event no later than ten (10) days prior to the date on which the Trustee makes application to the Bankruptcy Court for authority and approval to enter into such assumption and assignment or subletting. Landlord shall have the prior right and option, to be exercised by written notice to the Trustee given at any time prior to the effective date of such proposed assignment or subletting, to accept an assignment of this Lease or subletting of the Premises upon the same terms and conditions and for the same consideration, if any, as the bonafide offer made by such person or entity, less any brokerage commissions which may be payable out of the consideration to be paid by such person or entity for the assignment or subletting of this Lease.

(ii) The Trustee shall have the right to assume Tenant's rights and obligations under this Lease only if the Trustee: (i) promptly cures or provides adequate assurance that the Trustee will promptly cure any default under the Lease; (ii) compensates or provides adequate assurance that the Trustee will promptly compensate Landlord for any actual pecuniary loss incurred by Landlord as a result of Tenant's default under this Lease; and, (iii) provides adequate assurance of future performance under the Lease. Adequate assurance of future performance by any proposed assignee or subtenant shall include, at a minimum, assurance that: (a) any proposed assignee or subtenant shall deliver to Landlord a security deposit in an amount equal to at least three (3) months' Base Rental accruing under the Lease; (b) any proposed assignee or subtenant shall provide to Landlord an audited financial statement, dated no later than six (6) months prior to the effective date of such proposed assignment or sublease with no material change therein as of the effective date, which financial statement shall show the proposed assignee or subtenant to have a net worth equal to at least twelve (12) months' Base Rental accruing under the Lease, or, in the alternative, the proposed assignee or subtenant shall provide a guarantor of such proposed assignee's or subtenant's obligations under the Lease, which guarantor shall provide an audited financial statement meeting the requirements of this subpart and shall execute and deliver to Landlord a guaranty agreement in form and substance acceptable to Landlord; and, (c) any proposed assignee or subtenant shall grant to Landlord a security interest in favor of Landlord in all furniture, fixtures, and other personal property to be used by such proposed assignee or subtenant in the Premises. All payments of Total Rent required of Tenant under this Lease, whether or not expressly denominated as such in this Lease, shall constitute rent for the purposes of Title 11 of the Bankruptcy Code.

(iii) For the purposes of the Bankruptcy Code relating to (i) the obligation of the Trustee to provide adequate assurance that the Trustee will "promptly" cure defaults and compensate for actual pecuniary loss, the word "promptly" shall mean that cure of defaults and compensation will occur no later than sixty (60) days following the filing of any motion or application to assume this Lease; and (ii) the obligation of the Trustee to compensate or to provide

adequate assurance that the Trustee will promptly compensate Landlord for "actual pecuniary loss" shall mean Landlord's damages upon default, including but not limited to payments of past due Total Rent, including (without limitation) interest at the rate provided for in Section 4.6(g), all attorneys' fees, and all related costs and expenses of Landlord incurred in connection with any default of Tenant and in connection with Tenant's bankruptcy proceedings.

(iv) Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code shall be deemed, without further act or deed, to have assumed all of the obligations arising under this Lease and each of the conditions and provisions hereof on and after the date of such assignment. Any such assignee shall, upon the request of Landlord, forthwith execute and deliver to Landlord an instrument, in form and substance acceptable to Landlord, confirming such assumption.

8.8 NO ESTATE IN LAND: RELATIONSHIP OF THE PARTIES: This Lease creates the relationship of landlord and tenant between Landlord and Tenant. No estate shall pass out of Landlord, and Tenant has only a usufruct which

is not subject to levy and sale. Further, nothing contained herein shall be deemed or construed by the parties hereto, or by any third party, as creating the relationship of principal and agent, or of partnership, or of joint venture, between the parties hereto, it being understood and agreed that no provision contained herein, nor any acts of the parties hereto, shall be deemed to create any relationship between such parties other than the relationship of landlord and tenant.

8.9 RECORDING: This Lease shall not be recorded by Tenant without Landlord's consent endorsed hereon.

8.10 GOVERNMENTAL REGULATIONS:

(a) Tenant waives the benefits of all existing and future rent control legislation and statutes and similar governmental rules and regulations, whether in time of war or not, to the full extent permitted by law.

(b) Except as provided in paragraph (c) of this Section 8.10, if, in order to maintain the Building as an office building, or otherwise, or the Premises for the use stipulated in Section 2.1, Landlord shall be required by any governmental authority to repair, alter, remove, construct, reconstruct, or improve any part or all of the Premises or the building, such action shall be performed by Landlord but shall in no way affect Tenant's obligations under this Lease. Tenant waives all claim for injury, damage or abatement of rent because of such repair, alteration, removal, construction, reconstruction, or improvement; provided, however, that if such action by Landlord renders the Premises untenable, or if Landlord cannot reasonably complete such acts within sixty (60) days after notice to it to perform such acts by the governmental authority, either Landlord or Tenant, by written notice to the other delivered not later than seventy (70) days after the date of notice to Landlord by such governmental authority, may terminate this Lease, in which event Total Rent shall be apportioned and paid up to and including the date the Premises become untenable if terminated by Landlord, but up to and including the date of termination if terminated by Tenant.

(c) Without limiting the provisions of Section 4.6(d), Tenant shall, at Tenant's sole cost and expense but subject to Landlord's prior written approval, which approval shall not be unreasonably withheld, make each and every alteration or addition to the Premises required to bring the Premises into compliance with the requirements imposed by the Americans with Disabilities Act, (42 U.S.C. Section 12101 et-q,) and any regulations promulgated pursuant thereto ("ADA Requirements") effective from time to time during the Lease Term, and any period of holding over by Tenant if:

(i) the requirement for such alteration or addition arises as a result of:

- (1) any alteration or addition by Tenant; or
- (2) any violation by Tenant of any ADA Requirements; or
- (3) a special use of the Premises or any part thereof by Tenant or any assignee or subtenant of Tenant (including, but not limited to, use for a facility which constitutes, or, if open to the public generally, would constitute, a "place of public accommodation" under the ADA Requirements); or
- (4) the special needs of the employee(s) of Tenant or any assignee or subtenant of Tenant; or

(ii) the ADA Requirements would otherwise make Tenant, rather than Landlord, primarily responsible for making such alteration or addition.

8.11 SUBORDINATION AND ATTORNMEN T:

(a) Except as provided in Subsection (c) below and subject to the provisions of subsection (d) below, this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien of Landlord's Mortgage.

(b) While Subsection (a) of this Section 8.11 is self-operative, and no further instrument of subordination shall be necessary, Tenant shall, in confirmation of such subordination, upon demand, at any time or times, execute, acknowledge and deliver to Landlord or a holder of Landlord's Mortgage any and all instruments requested by either of them to evidence such subordination.

(c) Tenant shall, upon demand, at any time or times, execute, acknowledge, and deliver to Landlord or to a holder of Landlord's Mortgage, without expense, any and all instruments that may be necessary to make this Lease superior to the lien of Landlord's Mortgage.

(d) Tenant shall, at the option of any holder of Landlord's Mortgage or any other purchaser at a foreclosure sale who shall hereafter succeed to the rights of Landlord under this Lease (the "Purchaser"), attorn to and recognize such Purchaser as Tenant's landlord under this Lease from and after the foreclosure and for the balance of the Lease Term and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between such Purchaser and Tenant, subject to all of the terms, covenants and conditions of this Lease; provided, however, that the Purchaser (including its successors and assigns) shall not be (i) liable for any act or omission of any prior Landlord under the Lease, (ii) subject to any offsets or defenses which Tenant might have against any prior Landlord under the Lease, (iii) bound by any Base Rental or other payments which Tenant might have paid for more than the current month to any prior Landlord under the Lease, or (iv) bound by any

amendment or modification of the Lease made after the date of the foreclosed Landlord's Mortgage without the prior written consent of the Mortgagee thereunder. The provisions of this subsection (d) shall survive any termination of this Lease resulting from a foreclosure of Landlord's Mortgage.

(e) If Tenant fails at any time to execute, acknowledge and deliver any of the instruments provided for by Subsections 8.11(b), (c) and (d) above within ten (10) days after Landlord's demand so to do, Landlord, in addition to the

remedies allowed by Article VI, may execute, acknowledge and deliver any and all of such instruments as the attorney-in-fact of Tenant and in its name, place and stead, and Tenant hereby irrevocably appoints Landlord, its successors and assigns, as such attorney-in-fact.

8.12 ESTOPPEL CERTIFICATE: At any time and from time to time, Tenant, on or before the date specified in a request therefor made by Landlord, which date shall not be earlier than ten (10) days from the making of such request, shall execute, acknowledge and deliver to Landlord a certificate in substantially the same form as the Estoppel Certificate which is attached hereto as Exhibit "G" and incorporated herein by reference. Each certificate delivered pursuant to this Section may be relied on by any prospective purchaser or transferee of Landlord's interest hereunder or of any part of Landlord's property or by any holder or prospective holder of Landlord's Mortgage, or a mortgage or prospective mortgage of any part of Landlord's other property.

8.13 SEVERABILITY: Each clause and provision of this Lease shall be valid and enforced to the fullest extent permitted by applicable law; however, if any clause or provision of this Lease is or becomes illegal, invalid, or unenforceable because of present or future laws or any rule or regulation of any governmental body or entity, effective during its term, the intention of the parties hereto is that the remaining parts of this Lease and the application of such clause or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, unless the amount of Total Rent payable hereunder is thereby decreased, in which event Landlord may terminate this Lease. Should any of the provisions of this Lease require judicial interpretation, it is agreed that the court interpreting or construing the same shall not apply a presumption that the terms of any such provision shall be more strictly construed against one party by reason of any rule of construction that a document is to be construed most strictly against the party who itself or through its agent prepared the same, it being agreed that the agents of all parties have participated in the negotiation and preparation of this Lease.

8.14 CAPTIONS: The captions used in this Lease are for convenience only and do not in any way limit or amplify the terms and provisions hereof.

8.15 SUCCESSORS AND ASSIGNS: The provisions of this Lease shall inure to the benefit of and be binding upon Landlord and Tenant, and their respective successors, heirs, legal representatives and assigns, subject, however, in the case of Tenant, to the provisions of Article V.

8.16 SALE OF BUILDING: In the event of any sale or sales of the Building (and the property on which same is situated) or of any lease thereof, the Landlord named herein above shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder accruing thereafter, and it shall be deemed without further agreement that the purchaser, or the lessee, as the case may be, has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder during the period such party has possession of the Building. Should the entire Building and the property on which same is situated be severed as to ownership by sale and/or lease, then the owner of the entire Building or the lessee of the entire Building that has the right to lease space in the Building to tenants shall be deemed the "Landlord". Tenant shall be bound to any succeeding Landlord for all the terms, covenants and conditions hereof and shall execute any attornment agreement not in conflict herewith at the request of any succeeding Landlord. The provisions of this Section 8.16 shall apply to each and every sale, lease or other transfer of the Building or the property on which same is situated, or both, during the Lease Term.

8.17 TRANSFER OF TENANTS: This Section 8.17 shall only be effective at such times and from time to time as the Premises contain a rentable area of 3,000 square feet or less. Landlord hereby reserves the right, at its sole option and upon giving at least sixty (60) calendar days written notice in advance to Tenant, to transfer and remove Tenant from the Premises from time to time to any other available space in the Tower Place Complex of substantially equal area, which space shall, once Tenant has been relocated therein, be deemed the "Premises" for purposes of this Lease. Landlord hereby agrees to bear the expense of such transfer and removal, as well as the expense of any renovations or alterations which are necessary to make the new space conform substantially in layout and appointment with the Premises. Failure of Tenant to cooperate with Landlord pursuant to this provision and to remove itself from the Premises shall permit Landlord to enter the Premises and to remove Tenant and its property therefrom and to relocate Tenant and its property in the new space provided by Landlord pursuant to this provision, all without being liable to Tenant in any manner whatsoever for such acts, except for the expenses which are expressly provided in this Section 8.17 to be paid by Landlord.

8.18 GOVERNING LAW: The laws of the State of Georgia shall govern the interpretation, validity, performance and enforcement of this Lease.

8.19 TIME IS OF THE ESSENCE: Except as otherwise specifically provided herein, time is of the essence of this Lease.

8.20 LIMITATION OF LIABILITY: Landlord's obligations and liability to Tenant with respect to this Lease shall be limited solely to Landlord's interest in the Building, and Tenant shall look solely to Landlord's interest in the Building for satisfaction of Tenant's remedies. Neither Landlord nor any partner, officer, director, or shareholder of Landlord or of any partner of Landlord shall have any personal liability whatsoever with respect to this Lease.

8.21 EXECUTION: This Lease may be executed in any number of counterparts, each of which shall be deemed an original and any of which shall be deemed to be complete in itself and shall be admissible into evidence or used for any purpose without the production of the other counterparts.



8.22 MULTIPLE/TENANTS: If Tenant is composed of more than one individual or entity, then all are jointly and severally liable for the due and proper performance of Tenant's duties and obligations arising under or in connection with this Lease.

8.23 FORCE MAJEURE: Landlord shall be excused from the performance of any of its obligations for the period of any delay resulting from any cause beyond its control, including, without limitation, all labor disputes, governmental regulations or controls, fires or other casualties, inability to obtain any material or services, or acts of God.

8.24 QUIET ENJOYMENT: Provided that Tenant fully and timely performs all the terms of this Lease on Tenant's part to be performed, including payment by Tenant of all Total Rent, Tenant shall have, hold and enjoy the Premises

during the Lease Term without hindrance or disturbance from or by Landlord; subject, however, to all of the terms, conditions and provisions of this Lease, Landlord's Mortgage and any and all ground leases, restrictive covenants, easements, and other encumbrances now or hereafter affecting the Premises, the Building or the Tower Place Complex (if applicable).

8.25 ATTORNEYS' FEES: If any rent or other amount owing by Tenant to Landlord under this Lease is collected by or through an attorney at law, Tenant agrees so pay an additional amount equal to fifteen percent (15%) of such sum as attorneys' fees.

8.26 ALTERATIONS IN COMPOSITION OF COMMON AREAS: Landlord reserves the right in its sole discretion to redesign, change, rearrange, alter, reconstruct, modify, expand, reduce or supplement any and all of the facilities designed for the common use and convenience of all tenants of the Tower Place Complex and/or the Building, including, without limitation, parking areas, driveways and other the Common Areas, so long as access to the Premises is not materially adversely affected thereby. In furtherance, and not in limitation, of the foregoing, Landlord shall have the right to erect additional stores or other structures in the Tower Place Complex, or to add to or otherwise modify buildings and facilities now or hereafter existing in the Tower Place Complex, and, in connection with any such activity and construction, to erect temporary scaffolds and other aids to construction on the exterior of the Premises, provided that access to the Premises shall not be denied Tenant and that there shall be no encroachment upon the interior of the Premises. Landlord shall have the right to close the Common Areas or any portion thereof (including, without limitation, all roadways, driveways, accessways, sidewalks and parking areas and facilities now or hereafter within the Tower Place Complex) at such time and in such manner as is necessary or appropriate, in Landlord's sole opinion, to prevent their deduction as public rights-of-way or streets, and to do and perform such other acts in, to and with respect to the Common Areas as at the time in question accord with good and generally accepted standards of operation of mixed-use, high-rise developments.

8.27 PARKING: Tenant shall have the right on the Commencement Date to lease parking spaces in the parking facilities of the Tower Place Complex available to tenants therein (as same may be modified from time to time) up to the maximum number of parking spaces stipulated in Section 1.1(r). All of such spaces shall be unassigned and shall be leased at the posted monthly rental rates in effect therefor from time to time. \* Landlord and Tenant agree and Tenant acknowledges that rates for spaces in the parking facilities of the Tower Place Complex may vary according to the location of spaces in the facilities and according to whether or not spaces are reserved or unreserved. Tenant further acknowledges and agrees that Landlord may designate certain spaces within the parking facilities of the Tower Place Complex as reserved or assigned spaces for the benefit of Landlord, visitors to the project or tenants therein, other tenants, couriers and delivery services and other persons. Tenant shall comply and cause its employees to complete and sign the Tower Place Parking Application. Tenant must comply with all rules and regulations established by Landlord and/or the operator of the parking facilities as provided in the Tower Place Parking Rules and Regulations, including, without limitation, any card, sticker or other identification system, whether now or hereafter in effect, and agrees to pay to Landlord a fifteen dollar (\$15.00) or as modified from time to time deposit for each parking card issued. All parking privileges granted pursuant to this Section 8.27 are non-assignable and nontransferable by Tenant; provided however, that parking privileges may be assigned or transferred by Tenant in conjunction with a transfer, assignment or subletting allowed by Article V of this Lease. Tenant agrees to pay, as additional rent, the sum of \$15.00 for any parking cards which become lost, mutilated or destroyed.

8.28 SPECIAL STIPULATIONS: The Special Stipulations, if any, attached hereto are made a part hereof by this reference, and to the extent they conflict with any of the foregoing provisions, they shall control.

8.29 AUTHORIZATION: As a material inducement to Landlord to enter into this Lease, Tenant, and each party executing this Lease on behalf of Tenant, intending that Landlord rely on each such representation and warranty, represents and warrants to Landlord that:

(a) the execution, delivery and full performance of this Lease by Tenant do not and shall not constitute a violation of any contract, agreement, undertaking, judgment, statute, regulation, governmental or court order or other restriction of any kind to which Tenant is a party or by which Tenant is or may be bound;

(b) Tenant has executed and entered into this Lease free from fraud, undue influence, duress, coercion or other defenses to the execution of this Lease;

(c) this Lease constitutes a valid and binding obligation of Tenant, enforceable against Tenant in accordance with the terms of this Lease;

(d) Tenant is duly organized, validly existing and in good standing under the laws of the state of Tenant's organization and has full power and authority to enter into this Lease, to perform Tenant's obligations under this Lease in accordance with the terms hereof, and to transact business in the State of Georgia; and

(e) the execution and delivery of this Lease by the individual or individuals executing this Lease on behalf of Tenant, and Tenant's performance of its obligations under this Lease, have been duly authorized and approved by all necessary corporate or partnership action, as the case may be, and Tenant's execution, delivery and performance of this Lease are not in conflict with Tenant's bylaws or articles of incorporation (if a corporation), agreement of partnership (if a partnership), or other charters, agreements, rules or regulations governing Tenant's business, as any of the foregoing may have been supplemented, modified, amended, or altered in any manner.

[SIGNATURES BEGIN ON FOLLOWING PAGE]

-----  
LANDLORD  
Initials  
-----  
TENANT  
Initials  
-----

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed under seal as of the date first above written.

LANDLORD:

TOWER PLACE, L.P.  
a Georgia Limited Partnership

By: REGENT PEACHTREE HOLDINGS, INC.  
a Georgia Corporation, its sole General Partner

By: /s/ David B. Allman

-----  
Name: David B. Allman  
Its: President

Attest: /s/ Terry L. Woolard

-----  
Name: Terry L. Woolard  
Its: Secretary

(CORPORATE SEAL)

TENANT:

QUALITY SYSTEM, INC.  
a California Corporation

By: /s/ Lou Silverman

-----  
Name: Lou Silverman  
Its: PRESIDENT

Attest: /s/ Paul Holt

-----  
Name: Paul Holt  
Its: Interim Chief Financial Officer

(CORPORATE SEAL)

SPECIAL STIPULATIONS

These Special Stipulations are attached to and by this reference made a part of that certain Tower Place Office Lease (the "Lease") between Tower Place, L.P. and Quality Systems, Inc. In the event that these Special Stipulations conflict with any of the provisions contained in the Lease, the Special Stipulations shall govern and control.

1. Base Rental Adjustment:

Notwithstanding anything contained within the Lease to the contrary, Base Rental shall be increased on each anniversary of the Commencement Date to become an amount equal to three percent (3%) greater than the amount in effect immediately prior to such adjustments as outlined below:

Year	Annual Rent	Monthly Rent
1	\$189,140.00	\$15,761.67
2	\$194,814.20	\$16,234.52
3	\$200,658.63	\$16,721.55
4	\$206,678.39	\$17,223.20
5	\$212,878.74	\$17,739.90

2. Notwithstanding anything contained in Section 4.2(c) of this Lease to the contrary, if a separate electrical meter is utilized for the Premises, Tenant shall only be required to pay for the electrical usage in excess of the usual and normal amount of electric power included in the Operating Expenses of the Building.

3. Notwithstanding anything contained in Article VII of this Lease to the contrary, in the event that any damage to the Building or Premises cannot be repaired and renders the Premises untenable, or should such damage occur during the last twelve months of the term of the Lease, Tenant may, with written notice to Landlord, terminate this Lease.

EXHIBIT "A"

FLOOR PLAN

April 27, 2000

Tower Place 100

[FLOOR PLAN GRAPHIC OMITTED]

4th Floor  
Suite 450

[LOGO] REGENT PARTNERS  
3348 Peachtree Road, N.E. Suite 1000  
Atlanta, Georgia 30326  
(404) 364-1400 Fax (404) 364-1420

EXHIBIT "B"

TOWER PLACE COMPLEX

(legal description)

All that tract or parcel of land situated, lying and being in Land Lot 62 of the 17th District of Fulton County, Georgia and being more particularly described as follows:

To find the point of beginning commence at the intersection of the northeastern right-of-way of Piedmont Road (variable width right-of-way) with the northwestern right-of-way of Peachtree Road (variable width right-of-way) if said intersections were extended to form an angle and running thence along the extension of the northeast right-of-way of Piedmont Road North 24(degrees) 31' 46" West 74.12 feet to a point on said northeastern right-of-way, continue thence along said northeastern right-of-way the following courses and distances: North 24(degrees) 31' 46" West 316.17 feet to a point, along the arc of an 8,044.51 foot radius curve to the left an arc distance of 319.54 feet (said arc being subtended by a chord lying to the southwest having a bearing of North 23 (degrees) 23' 29" West and being 319.52 feet in length) to a point, along the arc of an 8,044.51 foot radius curve to the left an arc distance of 108.97 feet (said arc being subtended by chord lying to the southwest having a bearing of North 21(degrees) 51' 55" West and being 108.97 feet in length) to a point, North 20(degrees) 44' 09" West 15.30 feet to a point, and South 60(degrees) 08' 35" West 6.34 feet to the TRUE POINT OF BEGINNING. From said TRUE POINT OF BEGINNING as thus established continue thence along said northeast right-of-way of Piedmont Road North 21(degrees) 31' 42" West 621.62 feet to a point; thence leaving said right-of-way run North 62(degrees) 57' 37" East 483.73 feet to an iron pin found; thence North 74(degrees) 29' 39" West 377.00 feet to an iron pin found; thence North 32(degrees) 26' 16" East 442.09 feet to a point; thence South 61(degrees) 46' 10" East 546.06 feet to a point; thence North 45(degrees) 05' 49" East 100.19 feet to an iron pin found; thence South 46(degrees) 12' 40" East 982.48 feet to a brass cap found on the northwest right-of-way of Peachtree Road; thence along said northwest right-of-way the following courses and distances: South 30(degrees) 16' 14" West 43.28 feet to a point, South 28(degrees) 24' 49" West 51.91 feet to a point, South 26(degrees) 11' 30" West 51.83 feet to a point, South 23(degrees) 50' 08" West 53.86 feet to a point, South 14(degrees) 34' 59" West 46.56 feet to a point, South 14(degrees) 34' 59" West 150.54 feet to a point, and South 13(degrees) 38' 47" West 125.00 feet to a point; thence leaving said right-of-way run North 58(degrees) 01' 45" West 475.62 feet to an iron pin set; thence North 58(degrees) 01' 43" West 207.34 feet to an iron pin set; thence North 13(degrees) 17' 54" East 70.94 feet to a point; thence South 60(degrees) 31' 38" West 363.50 feet to an iron pin found; thence South 60(degrees) 08' 35" West 332.23 feet to the TRUE POINT OF BEGINNING.

Said property being more particularly shown as Parcels A, B, C, D, E-1, E-2, F, G, H and the Marriott Tract containing 26.24 acres on that certain ALTA/ACSM Land Title Survey prepared for Regent Tower Holdings, Inc., Tower Place, L.P., Buckhead Hotel Associates, LLC, First Union National Bank, Teachers Insurance and Annuity Association of America and Chicago Title Insurance Company by Mayes, Sudderth & Etheredge, Inc. bearing the seal and certification of George T. White, G.R.L.S. No. 1929 dated March 5, 1999, last revised September 16, 1999. Said Survey being incorporated herein by this reference.

EXHIBIT "C"

COMMENCEMENT DATE AGREEMENT

Agreement made this \_\_\_\_ day of \_\_\_\_\_, 200 , between Tower Place, L.P. (hereinafter referred to as "Landlord") and (hereinafter referred to as "Tenant").

WHEREAS, Landlord and Tenant entered into a lease dated \_\_\_\_\_, 200\_\_ (hereinafter referred to as the "Lease"), for space on the \_\_ Floor(s) in the Building having an address at 3340 Peachtree Road, Atlanta, Georgia;

NOW, THEREFORE, pursuant to the provisions of Subsection 4. 1(d) of the Lease, Landlord and Tenant mutually agree as follows:

1. Tenant is in possession of, and has accepted, the Premises demised by the Lease. Tenant further certifies that all conditions of the Lease required of Landlord as of this date have been fulfilled and there are no defenses or offsets against the enforcement of the Lease by Landlord.

2. The Commencement Date of the Lease Term is \_\_\_\_\_, 200\_, and the Expiration Date of the Lease Term is \_\_\_\_\_, \_\_\_\_\_.

3. Terms used herein are defined in the Lease.

IN WITNESS WHEREOF, the parties hereto have signed and sealed this Agreement, the \_\_\_\_ day of \_\_\_\_\_, 200\_.

LANDLORD:

TOWER PLACE, L.P.  
A Georgia Limited Partnership

By: REGENT PEACHTREE HOLDINGS, INC.  
A Georgia Corporation, its sole  
General Partner

By: \_\_\_\_\_

Name: David B. Allman

Attest: \_\_\_\_\_

Name  
Its:

[CORPORATE SEAL]

TENANT:

a \_\_\_\_\_ corporation

By: \_\_\_\_\_

Name:  
Its:

Attest: \_\_\_\_\_

Name  
Its:

[CORPORATE SEAL]



EXHIBIT "D"

OPERATING EXPENSES

"Operating Expenses" shall mean the costs and expenses of operating, servicing, managing, maintaining and repairing the Building, the Common Areas and portions of the Tower Place Complex, including without limitation, amounts payable by the Owner of the Building under various easement agreements which now or hereafter may benefit the Building and the property on which it is located as determined by Landlord, in a manner consistent with first class office buildings in the Atlanta, Georgia area, including without, limitation, the following:

1. Reasonable and customary costs and expenses paid or incurred by Landlord for the maintenance and repair of the Building and the personal property used in connection therewith, including but not limited to (i) the heating, ventilating and air conditioning equipment, (ii) plumbing and electrical systems and equipment, (iii) light bulbs and broken glass, including replacement thereof, and (iv) elevators and escalators;
2. Cleaning and janitorial costs and expenses, including window cleaning expenses, for the Building;
3. Landscaping and grounds maintenance costs and expenses;
4. Utility costs and expenses including, but not limited to, those for electricity, gas, steam, other fuels and forms of power or energy, water charges, sewer and waste disposal, heating and air-conditioning;
5. Costs and expenses of redecorating, painting and carpeting the common areas of the Building;
6. Costs of all repairs, alterations, additions, changes, replacements and other items required by any law or governmental regulation imposed after the date of construction of the Building, regardless of whether such costs, when incurred, are classified as capital expenditures;
7. Cost of wages and salaries of all persons engaged in the operation, maintenance, repair and security of the Building, and so-called fringe benefits, including social security taxes, unemployment insurance taxes, costs for providing coverage for disability benefits, cost of any pensions, hospitalization, welfare or retirement plans, or any other similar or like expense incurred under the provisions of any collective bargaining agreement, costs of uniforms, and all other costs or expenses that the Landlord pays to or on behalf of employees engaged in the operation, maintenance, repair and security of the Building;
8. Charges of any independent contractor who, under contract with the Landlord or its manager or representatives, does any of the work of operating, maintaining, or repairing the Building;
9. Legal and accounting expenses, including, but not limited to, such expenses as relate to seeking or obtaining reductions in and/or refunds of real estate taxes;
10. Amortization, with interest, of capital expenditures for capital improvements made by Landlord after completion of the Building where such capital improvements are for the purpose of, or result in, reducing Operating Expenses;
11. Landlord's insurance costs and expenses for all types of insurance carried by Landlord with respect to the Building;
12. Security service costs and expenses;
13. Management fees and expenses;
14. The cost of "Muzak" services, or similar type services, if any;
15. Expenses incurred in the purchase or acquisition of materials and supplies in connection with all of the foregoing expenses;
16. Taxes, which shall mean (i) personal property taxes (attributable to the year in which paid) imposed upon the furniture, fixtures, machinery, equipment, apparatus, systems, and appurtenances used in connection with the Building for the operation thereof, and (ii) real estate taxes, assessments, sewer rents, rates and charges, transit taxes, taxes based upon the receipt of rent and any other federal, state, or local governmental charge, general, special, ordinary, or extraordinary (but not including income or franchise taxes or any other taxes imposed upon or measured by Landlord's income or profits, unless the same shall be imposed in lieu of real estate taxes) which may now or hereafter be levied or assessed against the Building, the property on which same is situated, any other improvements hereinafter constructed on such property, or the rents derived from such property, the Building and such other improvements (in the case of special taxes or assessments which may be payable in installments, only the amount of each installment paid during a calendar year shall be included in the Taxes for that year); and
17. Such other expenses paid by Landlord, from time to time, in connection with the operation and maintenance of the Building and the property on which same is situated as would be expected to be paid by a reasonable and prudent operator and manager of a building and site comparable to the Building and such property.

All costs of special services rendered to particular tenants of the Building, which are paid by such tenants, shall not be included in Operating Expenses. Payments by Landlord of interest and principal on any mortgage or similar instrument secured by the Building or the property on which same is situated

shall not be included in Operating Expenses. Except as specified in items 5, 6 and 10 hereof, the cost of structural changes to the Building which should be capitalized in accordance with sound accounting principles shall not be allocated or charged to the Premises without Tenant's approval.

EXHIBIT "E"

WORK SCHEDULE

TO  
TOWER PLACE OFFICE LEASE  
by and between  
TOWER PLACE, L.P.  
and  
QUALITY SYSTEMS, INC.

1. Premises Leased "As Is". Tenant and Landlord agree and Tenant acknowledges that the Premises are in all respects being leased by Landlord to Tenant, and shall be accepted by Tenant, in their current "AS IS/WHERE IS" condition and that Landlord has and shall have no obligation or duty whatsoever to make any alterations, repairs or improvements of any kind or nature in or to the Premises in order to prepare same for Tenant's occupancy, except for such alterations, repairs or improvements, if any, as may be expressly provided in Paragraph 2 below.

2. Landlord's Work. Landlord, at its sole cost and expense, agrees to make the following modifications to the Premises in accordance with Exhibit "E-1".

3. Delays in Occupancy. If for any reason, other than Tenant delay as described in Paragraph 4 below, Landlord cannot or is unable to deliver possession of the Premises to Tenant on or before the Anticipated Commencement Date in accordance with and in the condition required by this Work Schedule and the Lease, the Lease shall not be void or voidable except as provided in the following sentence, and Landlord shall not be liable to Tenant for any loss or damage resulting from Landlord's failure or delay in so delivering possession of the Premises, but in such case (and subject to Paragraph 4 below) the Commencement Date shall not occur until Landlord is able to deliver the Premises in the condition required by this Lease; the Expiration Date, however, shall not otherwise be affected by such delay. Further, if for any reason other than strikes, casualties, Tenant delay, or other causes beyond the control of Landlord, possession of the Premises is not delivered to Tenant within ninety (90) days after the Anticipated Commencement Date, or if possession is not so delivered for any reason whatsoever other than Tenant delay on or before six (6) months following the Anticipated Commencement Date, then this Lease shall be voidable by either party upon thirty (30) days' written notice to the other given at any time prior to delivery of possession in accordance with this Work Schedule and the Lease, provided that such notice shall be void if possession is delivered within said thirty (30) day period. If the Lease is voided pursuant to this provision, then any monies advanced by Tenant to Landlord shall be returned and the parties hereto shall have no further rights, claims or obligations under the Lease.

4. Tenant Delays. If on the Anticipated Commencement Date Landlord is unable to deliver the Premises to Tenant in accordance with and in the condition required by this Work Schedule and the Lease due to omission, delay or default by Tenant or anyone acting under or for Tenant ("Tenant delay"), then Tenant's obligations under this Lease (including, without limitation, the obligation to pay Total Rent) shall nonetheless commence as of the Anticipated Commencement Date (which shall in such case be the Commencement Date), except that, in the event that Landlord cannot deliver possession of the Premises to Tenant on the Anticipated Commencement Date because of Tenant delay, this Lease shall be voidable at the sole option of Landlord at any time prior to Tenant's performance of such obligations or payment of the Total Rent due under this Lease; and, should Landlord so elect to void this Lease, all monies advanced by Tenant to Landlord shall be retained by Landlord as liquidated damages (the parties hereto recognizing and acknowledging the difficulty of determining such damages), and thereafter the parties hereto shall have no further rights, claims, or obligations under this Lease, except for such matters which by the express terms of the Lease survive expiration or termination thereof.

[DOOR SCHEDULE GRAPHIC OMITTED]

Exhibit "E-1"

Partition/Demo

[LOGO]

Loia o Budde  
& ASSOCIATES

-----  
5076 Winters Chapel Road  
Atlanta, Georgia 30360  
(770) 396-3207 Fax 396-9597

Quality Systems, Inc.

-----  
4th Floor Suite 450 Tower Place 100  
3340 Peachtree Road Atlanta, Georgia 30326

-----  
CAD FILE NUMBER

00427C

-----  
DRAWN

CMM

-----  
DATE

11/1/00

-----  
DRAWING NUMBER

A1  
1 OF 4  
-----

Utility Plan

[LOGO]

Loia o Budde  
& ASSOCIATES

-----  
5076 Winters Chapel Road  
Atlanta, Georgia 30360  
(770) 396-3207 Fax 396-9597

Quality Systems, Inc.

-----  
4th Floor Suite 450 Tower Place 100  
3340 Peachtree Road Atlanta, Georgia 30326

-----  
CAD FILE NUMBER

00427C

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DRAWN

CMM

-----  
DATE

11/1/00

-----  
DRAWING NUMBER

A2  
2 OF 4

Ceiling Plan

[LOGO]

Loia o Budde  
& ASSOCIATES

-----  
5076 WInters Chapel Road  
Atlanta, Georgia 30360  
(770) 396-3207 Fax 396-9597

Quality Systems, Inc.

-----  
4th Floor Suite 450 Tower Place 100  
3340 Peachtree Road Atlanta, Georgia 30326

-----  
CAD FILE NUMBER

00427C

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DRAWN

CMM

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DATE

11/1/00

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DRAWING NUMBER

A3  
3 OF 4  
-----

[FINISH SCHEDULE GRAPHIC OMITTED]

Exhibit "E-1"

Finish Plan

[LOGO]

Loia o Budde  
& ASSOCIATES

-----  
5076 WInters Chapel Road  
Atlanta, Georgia 30360  
(770) 396-3207 Fax 396-9597

Quality Systems, Inc.

-----  
4th Floor Suite 450 Tower Place 100  
3340 Peachtree Road Atlanta, Georgia 30326

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CAD FILE NUMBER

00427C

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DRAWN

CMM

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DATE

11/1/00

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DRAWING NUMBER

A3  
3 OF 4  
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EXHIBIT "F"

RULES AND REGULATIONS

1. The sidewalks, and public portions of the Building, such as entrances, passages, courts, elevators, vestibules, stairways, corridors or halls shall not be obstructed or encumbered by Tenant or used for any purpose other than ingress and egress to and from the Premises.

2. No awnings or other projections shall be attached to the outside walls of the Building. No curtains, blinds, shades, louvered openings or screens shall be attached to or hung in, or used in connection with, any window or door of the Premises, without the prior written consent of Landlord.

3. No sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by Tenant on any part of the outside of the Premises or Building or on corridor walls. Signs on entrance door or doors shall conform to building standard signs, samples of which are on display in Landlord's rental office. Signs on doors shall, at Tenant's expense, be inscribed, painted or affixed for each tenant by sign makers approved by Landlord. In the event of the violation of the foregoing by Tenant, Landlord may remove same without any liability, and may charge the expense incurred by such removal to Tenant.

4. The sashes, sash doors, skylights, windows, heating, ventilating and air conditioning vents and doors that reflect or admit light and air into the halls, passageways or other public places in the Building shall not be covered or obstructed by Tenant, nor shall any bottles, parcels, or other articles be placed on the window sills.

5. No show cases or other articles shall be put in front of or affixed to any part of the exterior of the Building, nor placed in the public halls, corridors or vestibules without the prior written consent of Landlord.

6. 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 shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by Tenant, if caused by it or its agents, employees, contractors, licensees or invitees.

7. Tenant shall not in any way deface any part of the Premises or the Building.

8. No bicycles, vehicles or animals (except seeing eye dogs) of any kind shall be brought into or kept in or about the Premises. No cooking shall be done or permitted by Tenant on the Premises except in conformity with law and then only in the utility kitchen, if any, as set forth in Tenant's layout, which is to be primarily used by Tenant's employees for heating beverages and light snacks. Tenant shall not cause or permit any unusual or objectionable odors to be produced upon or permeate from the Premises.

9. No space in the Building shall be used for manufacturing, distribution or storage of merchandise, or for the sale of merchandise, goods or property of any kind at auction.

10. Tenant shall not make, or permit to be made, any unseemly or disturbing noises or disturb or interfere with occupants of the Building or neighboring buildings or premises or those having business with them, whether by the use of any musical instrument, radio, talking machine, unmusical noise, whistling, singing, or in any other way. Tenant shall not throw anything out of the doors, windows or skylights or down the passageways.

11. Neither Tenant, nor any of Tenant's servants, employees, agents, visitors or licensees, shall at any time bring or keep upon the Premises any inflammable, combustible or explosive fluid, or chemical substance, other than reasonable amounts of cleaning fluids or solvents required in the normal operation of Tenant's business offices.

12. No additional locks or bolts of any kind shall be placed upon any of the doors or windows by Tenant, nor shall any changes be made in existing locks or the mechanism thereof, without the prior written approval of Landlord and unless and until a duplicate key is delivered to Landlord. Tenant shall, upon termination of its tenancy, restore to Landlord all keys of stores, offices and toilet rooms, either furnished to, or otherwise procured by, Tenant, and in the event of the loss of any keys so furnished, Tenant shall pay to Landlord the cost thereof.

13. All removals, or the carrying in or out of any safes, freight, furniture or bulky matter of any description must take place during the hours which Landlord or its agent may determine from time to time. Landlord reserves the right to inspect all freight to be brought into the Building and to exclude from the Building all freight which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part.

14. Tenant shall be restricted in the use of the Premises as provided in the Lease, but the Premises shall never be used for any of the following: (a) public stenographic or typing services, (b) storage, manufacture or sale of liquor, narcotics, tobacco or other restricted or regulated substances, except where no license or permit is required and such business is conducted solely with Tenant's employees or social guests, (c) public employment bureau or agency, or (d) employment or payroll office, except as related to Tenant's employees actually working on the Premises.

15. Landlord shall have the right to prohibit any advertising by Tenant which, in Landlord's opinion, tends to impair the reputation of the Building or its desirability as a building for offices, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.



16. Landlord reserves the right to exclude from the Building at all times other than business hours all persons who do not present a pass to the Building signed by Tenant. Tenant shall be responsible for all persons for whom it issues such a pass and shall be liable to Landlord for all acts of such persons.

17. Tenant agrees to purchase from Landlord or its agents all non-building standard lamps.

18. The Premises shall not be used for lodging or sleeping or for any immoral or illegal purpose.

19. The requirements of Tenant will be attended to only upon application at the office of the Building. Building employees shall not perform any work or do anything outside of their regular duties, unless under special instructions from the office of Landlord.

20. Canvassing, soliciting and peddling in the Building are prohibited and Tenant shall cooperate to prevent the same.

21. There shall not be used in any space, or in the public halls of any building, either by Tenant or by its jobbers or others, in the delivery or receipt of merchandise, any hand trucks, except those equipped with rubber tires and side guards. No hand trucks shall be used in passenger elevators.

22. Tenant, in order to obtain maximum effectiveness of the cooling system, shall lower and/or close venetian or vertical blinds or drapes where sun rays fall directly on windows of Premises.

23. All paneling, or other wood products not considered furniture shall be of fire retardant materials. Before installation of such materials, certification of the materials' fire retardant characteristics shall be submitted to Landlord or its agents, in a manner satisfactory to Landlord.

24. All tenants must abide by the Fulton County Clean Indoor Air Ordinance, effective June 21, 1993, which states that smoking is not allowed within public facilities or places of employment. Tower Place has provided a designated smoking area outside of the building which is the only approved area for this activity.

25. The parking access cards issued to tenants of Tower Place office buildings also operate the building access system for the building in which the leased premises are located. The card grants 24 hour, 7 day a week access to the parking decks and to the common area of the aforementioned building. The access card should not be considered a sole method of security to the leased premises.

COMMENCEMENT DATE AGREEMENT

Agreement made this 6 day of February, 2001 between TOWER PLACE, L.P. (hereinafter referred to as "Landlord") and QUALITY SYSTEMS, INC. (hereinafter referred to as "Tenant")

WHEREAS, Landlord and Tenant entered into this LEASE AGREEMENT DATED NOVEMBER 15, 2000 (hereinafter referred to as the "Lease"), for space located at Suite 450, 3340 Peachtree Road, N.E., Atlanta, Georgia;

NOW, THEREFORE, pursuant to the provisions of Section 4.1 of the Lease Agreement, Landlord and Tenant mutually agree as follows:

1. Tenant is in possession of, and has accepted, the Premises demised by the Lease. Tenant further certifies that all conditions of the Lease required of Landlord as of this date have been fulfilled and there are no defenses or offsets against the enforcement of the Lease by Landlord.
2. The Commencement Date of the above referenced lease agreement is February 5, 2001 and the Expiration Date is February 28, 2006.
3. Terms used herein are defined in the Lease.
4. Suite 450 is comprised of 7,720 rentable square feet

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

LANDLORD:  
TOWER PLACE, L.P.  
A Georgia Limited Partnership

TENANT  
QUALITY SYSTEMS, INC.  
a California Corporation

By: REGENT PEACHTREE HOLDINGS, INC.  
A Georgia Corporation, Its Sole  
General Partner

By: /s/ Paul Holt  
-----  
Name: Paul Holt  
Its: Chief Financial Officer

By: /s/ David B. Allman  
-----  
David B. Allman  
President

Attest: /s/ Terry L. Woolard  
-----  
Terry L. Woolard  
Secretary

Attest:  
-----  
Name  
Its:

Date: February 21, 2001  
-----  
[CORPORATE SEAL]

Date:  
-----  
[CORPORATE SEAL]

Exhibit 10.15  
Lease Agreement between Company and Orangewood Business  
Center Inc. dated April 3, 2000, amended February 22, 2001.

STANDARD INDUSTRIAL/COMMERCIAL MULTI-TENANT LEASE--MODIFIED NET  
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

[GRAPHIC OMITTED]

Duplicate  
Original

1. Basic Provisions ("Basic Provisions").

1.1 Parties: This Lease ("Lease"), dated for reference purposes only, APRIL 3, 2000, is made by and between ORANGEWOOD BUSINESS CENTER, INC., a California corporation ("Lessor") and QUALITY SYSTEMS, INC., a California corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2(a) Premises: That certain portion of the Building, including all improvements therein or to be provided by Lessor under the terms of this Lease, commonly known by the street address of 1701 E. Edinger Ave., Suite 5 - 8, located in the City of Santa Ana County of Orange, State of California, with zip code 92705, as outlined on Exhibit "A" attached hereto ("Premises"). The "Building" is that certain building containing the Premises and generally described as (describe briefly the nature of the Building): Approximately 13,244 square feet of office and warehouse space that is part of a larger, multi-tenant, industrial building. In addition to Lessee's rights to use and occupy the Premises as hereinafter specified, Lessee shall have non-exclusive rights to the Common Areas (as defined in Paragraph 2.7 below) as hereinafter specified, but shall not have any rights to the roof, exterior walls or utility raceways of the Building or to any other buildings in the Industrial Center. The Premises, the Building, the Common Areas, the land upon which they are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center." (Also see Paragraph 2.)

1.2(b) Parking: N/A unreserved vehicle parking spaces ("Unreserved Parking Spaces"); and N/A reserved vehicle parking spaces ("Reserved Parking Spaces"). (Also see Paragraph 2.6.)

1.3 Term: One (1) years and No months ("Original Term") commencing April 1, 2000 ("Commencement Date") and ending March 31, 2001 ("Expiration Date"). (Also see Paragraph 3.)

1.4 Early Possession: N/A ("Early Possession Date"). (Also see Paragraphs 3.2 and 3.3.)

1.5 Base Rent: \$8,595.60 per month ("Base Rent"), payable on the First (1st) day of each month commencing April 1, 2000 (Also see Paragraph 4.)

If this box is checked, this Lease provides for the Base Rent to be adjusted per Addendum \_\_\_\_\_, attached hereto.

1.6(a) Base Rent Paid Upon Execution: \$8595.60 as Base Rent for the period April 1 - 30, 2000.

1.6(b) Lessee's Share of Common Area Operating Expenses: 1.8% percent (1.8%) ("Lessee's Share") as determined by  pro rata square footage of the Premises as compared to the total square footage of the Building or  other criteria as described in PP.4.2

1.7 Security Deposit: \$ See Addendum Pp.51 ("Security Deposit"). (Also see Paragraph 5.)

1.8 Permitted Use: General office for sales, repair, and warehousing of information processing systems and related purposes. ("Permitted Use") (Also see Paragraph 6.)

1.9 Insuring Party. Lessor is the "Insuring Party." (Also see Paragraph 8.)

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1.12 Addenda and Exhibits. Attached hereto is an Addendum or Addenda consisting of Paragraphs 49 through 52, and Exhibits "A" through "D", all of which constitute a part of this Lease.

2. Premises, Parking and Common Areas.

2.1 Letting. Lessor hereby leases to Lessee, and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, [ILLEGIBLE] and conditions set forth in this Lease. Unless otherwise provided herein, any statement of square footage set forth in this Lease, or that may have been in [ILLEGIBLE] calculating rental and/or Common Area Operating Expenses, is an approximation which Lessor and Lessee agree is reasonable and the rental and Lessee's Share (as defined in Paragraph 1.6(b)) based thereon is not subject to revision whether or not the actual square footage is more or less.

2.2 Condition. Lessor shall deliver the Premises to Lessee clean and free of debris on the Commencement Date and warrants to Lessee that the existing

plumbing, electrical systems, fire sprinkler system, lighting, air conditioning and heating systems and loading doors, if any, in the Premises, other than those constructed by Lessee, shall be in good operating condition on the Commencement Date. If a non-compliance with said warranty exists as of the Commencement Date, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee setting forth with specificity the nature and extent of such non-compliance, rectify same at Lessor's expense. If Lessee does not give Lessor written notice of a non-compliance with this warranty within thirty (30) days after the Commencement Date, correction of that non-compliance shall be the obligation of Lessee at Lessee's sole cost and expense.

2.3 Compliance with Covenants, Restrictions and Building Code. Lessor warrants that any improvements (other than those constructed by Lessee or at Lessee's direction) on or in the Premises which have been constructed or installed by Lessor or with Lessor's consent or at Lessor's direction shall comply with all applicable covenants or restrictions of record and applicable building codes, regulations and ordinances in effect on the Commencement Date. Lessor further warrants to Lessee that Lessor has no knowledge of any claim having been made by any governmental agency that a violation or violations of applicable building codes, regulations, or ordinances exist with regard to the Premises as of the Commencement Date. Said warranties shall not apply to any Alterations or Utility installations (defined in Paragraph 7.3(a)) made or to be made by Lessee. If the Premises do not comply with said warranties, Lessor shall, except as otherwise provided in this Lease, promptly after receipt of written notice from Lessee given within six (6) months following the Commencement Date and setting forth with specificity the nature and extent of such non-compliance, take such action, at Lessor's expense, as may be reasonable or appropriate to rectify the non-compliance. Lessor makes no warranty that the Permitted Use in Paragraph 1.8 is permitted for the Premises under Applicable Laws (as defined in Paragraph 2.4).

2.4 Acceptance of Premises. Lessee hereby acknowledges: (a) that it has been advised by the Broker(s) to satisfy itself with respect to the condition [ILLEGIBLE] Premises (including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, seismic and earthquake requirements, and compliance with the Americans with Disabilities Act and applicable zoning, municipal, county, state and federal laws, ordinances and regulations and any [ILLEGIBLE] or restrictions of record (collectively, "Applicable Laws") and the present and future suitability of the Premises for Lessee's intended use; (b) that Lessee has made such investigation as it deems necessary with reference to such matters, is satisfied with reference thereto, and assumes all responsibility therefore as the same relate to Lessee's occupancy of the Premises and/or the terms of this Lease; and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to said matters other than as set forth in this Lease.

2.5 Lessee as Prior Owner/Occupant. The warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises. In such event, Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

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2.6 Vehicle Parking. Lessee shall be entitled to use the number of Unreserved Parking Spaces and Reserved Parking Spaces specified in Paragraph 1.2(b) on those portions of the Common Areas designated from time to time by Lessor for parking. Lessee shall not use more parking spaces than said number. Said Parking spaces shall be used 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 shall be parked and loaded or unloaded as directed by Lessor in the Rules and Regulations (as defined in Paragraph 40) issued by Lessor. (Also see Paragraph 2.9.)

(a) Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, contractors or invitees to be loaded, unloaded, or parked in areas other than those designated by Lessor for such activities.

(b) If Lessee permits or allows any of the prohibited activities described in this Paragraph 2.6, 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.

(c) Lessor shall at the Commencement Date of this Lease, provide the parking facilities required by Applicable Law.

2.7 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 and interior utility raceways within the Premises that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers, contractors and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped area.

2.8 Common Areas - Lessee's Rights. Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, contractors, 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.

2.9 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 in accordance with Paragraph 40. Lessee agrees to abide by and conform to all such Rules and Regulations, and to cause its employees, suppliers, shippers, customers, contractors 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.

2.10 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, walkways and utility raceways;

(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; and

(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.

### 3. Term.

Term. The Commencement Date, Expiration Date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If an Early Possession Date is specified in Paragraph 1.4 and if Lessee totally or partially occupies the Premises after the Early Possession Date but prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early occupancy. All other terms of this Lease, however, (including but not limited to the obligations to pay Lessee's Share Of Common Area Operating Expenses and to carry the Insurance required by Paragraph 8) shall be in effect during such period. Any such early possession shall not affect nor advance the Expiration Date of the Original

Term.

3.3 Delay In Possession. If for any reason Lessor cannot deliver possession of the Premises to Lessee by the Early Possession Date, if one is specified in Paragraph 1.4, or if no Early Possession Date is specified, by the Commencement 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, except as otherwise provided herein, be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease until Lessor delivers possession of the Premises to Lessee. If possession of the Premises is not delivered to Lessee within sixty (60) days after the Commencement Date, Lessee may, at its option, by notice in writing to Lessor within ten (10) days after the end of said sixty (60) day period, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect. Except as may be otherwise provided, and regardless of when the Original Term actually commences, if possession is not tendered to Lessee when required by this Lease and Lessee does not terminate this Lease, as aforesaid, the period free of the obligation to pay Base Rent, if any, that Lessee would otherwise have enjoyed shall run from the date of delivery of possession and continue for a period equal to the period during which the Lessee would have otherwise enjoyed under the terms hereof, but minus any days of delay caused by the acts, changes or omissions of Lessee.

#### 4. Rent.

4.1 Base Rent. Lessee shall pay Base Rent and other rent or charges, as the same may be adjusted from time to time, to Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rent and charges for any period during the term hereof which is for less than one full month shall be prorated based upon the actual number of days of the month involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

\*4.2 Common Area Operating Expenses. Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share (as specified in Paragraph 1.6(b)) of all Common Area Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions: \* Common Area Operating Expense cost shall be \$0.05 per square foot per month.

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(a) "Common Area Operating Expenses" are defined, for purposes of this Lease, as all costs incurred by Lessor relating to the ownership and operation of the industrial Center, including, but not limited to, the following:

(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, fences and gates, elevators and roof.

(bb) Exterior signs and any tenant directories.

(cc) Fire detection and sprinkler systems.

(ii) The cost of water, gas, electricity and telephone to service the Common Areas.

(iii) Trash disposal, property management and security services and the costs of any environmental inspections.

(iv) Reserves set aside for maintenance and repair of Common Areas.

(v) Real Property Taxes (as defined in Paragraph 10.2) to be paid by Lessor for the Building and the Common Areas under Paragraph 10 hereof.

(vi) The cost of the premiums for the insurance policies maintained by Lessor under Paragraph 8 hereof.

(vii) Any deductible portion of an insured loss concerning the Building or the Common Areas.

(viii) Any other services to be provided by Lessor that are stated elsewhere in this Lease to be a Common Area Operating Expense.

(b) Any Common Area Operating Expenses and Real Property Taxes that are specifically attributable to the Building or to any other building in the Industrial Center or to the operation, repair and maintenance thereof, shall be allocated entirely to the Building or to such other building. However, any Common Area Operating Expenses and Real Property Taxes that are not specifically attributable to the Building or to any other building or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to all buildings in the Industrial Center.

(c) The inclusion of the Improvements, facilities and services set forth in Subparagraph 4.2(a) shall not be deemed to impose an obligation upon [ILLEGIBLE] to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the [ILLEGIBLE] or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Common Area Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of [ILLEGIBLE] 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 [ILLEGIBLE] Common Area Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the [ILLEGIBLE], on the same day as the Base Rent is due hereunder. 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 Common Area 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, Lessor shall be credited the amount of such over-

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-2-

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payment against Lessee's Share of Common Area Operating Expenses next becoming due. If Lessee's payments under this Paragraph 4.2(d) 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 Lessee's execution hereof the Security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this Lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1). Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If [ILLEGIBLE] uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefore deposit monies with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Lessor shall not be required to keep all or any part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other Increment for its use, or to be prepayment for any monies to be paid by Lessee under this Lease.

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6. Use.

6.1 Permitted Use.

(a) Lessee shall use and occupy the Premises only for the Permitted Use set forth in Paragraph 1.8, or any other legal use which is reasonably comparable thereto, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that is unlawful, creates waste or a nuisance, or that disturbs owners and/or occupants of, or causes damage to the Premises or neighboring premises or properties.

(b) Lessor hereby agrees to not unreasonably withhold or delay its consent to any written request by Lessee. Lessee's assignees or subtenants, and by prospective assignees and subtenants of Lessee, its assignees and subtenants, for a modification of said Permitted Use, so long as the same will not impair the structural integrity of the improvements on the Premises or in the Building or the mechanical or electrical systems therein, does not conflict with uses by other lessees, is not significantly more burdensome to the Premises or the Building and the improvements thereon, and is otherwise permissible pursuant to this Paragraph 6. If Lessor elects to withhold such consent, Lessor shall within five (5) business days after such request give a written notification of same, which notice shall include an explanation of Lessor's reasonable objections to the change in use.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance" as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment, or the Premises; (ii) regulated or monitored by any governmental authority; or (iii) a basis for potential liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products or by-products thereof. Lessee shall not engage in any activity in or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Requirements (as defined in Paragraph 6.3). "Reportable Use" shall mean (i) the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous Substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority, and (iii) the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Laws require that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but in compliance with all Applicable Requirements, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course of the Permitted Use, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. In addition, Lessor [ILLEGIBLE] without any obligation to do so) condition its consent to any Reportable Use of any Hazardous Substance by Lessee upon Lessee's giving Lessor such [ILLEGIBLE] assurances as Lessor, in its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefor, including but not limited to the installation (and, at Lessor's option, removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

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(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause

to believe, that a Hazardous Substance has come to be located in, on, under or about the Premises or the Building, other than as previously consented to by Lessor, Lessee shall immediately give Lessor written notice thereof, together with a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action, or proceeding given to, or received from, any governmental authority or private party concerning the presence, spill, release, discharge of, or exposure to, such Hazardous Substance including but not limited to all such documents as may be involved in any Reportable Use involving the Premises. Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including, without limitation, through the plumbing or sanitary sewer system).

(c) Indemnification. Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all damages, liabilities, judgments, costs, claims, liens, expenses, penalties, loss of permits and attorneys' and consultants' fees arising out of or involving any Hazardous Substance brought onto the Premises by or for Lessee or by anyone under Lessee's control. Lessee's obligations under this Paragraph 6.2(c) shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of Investigation (including consultants' and attorneys' fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 Lessee's Compliance with Requirements. Lessee shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Requirements," which term is used in this Lease to mean all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater conditions, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill, or release of any Hazardous Substance), now in effect or which may hereafter come into effect. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including but not limited to permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Requirements specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Requirements.

6.4 Inspection; Compliance with Law. Lessor, Lessor's agents, employees, contractors and designated representatives, and the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lenders") shall have the right to enter the Premises at any time in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Requirements (as defined in Paragraph 6.3), and Lessor shall be entitled to employ experts and/or consultants in connection therewith to advise Lessor with respect to Lessee's activities, including but not limited to Lessee's installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease by Lessee or a violation of Applicable Requirements or a contamination, caused or materially contributed to by Lessee, is found to exist or to be imminent, or unless [ILLEGIBLE] is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination. In such case, Lessee [ILLEGIBLE] request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

## 7. Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations.

### 7.1 Lessee's Obligations.

(a) Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 7.2 (Lessor's Obligations), 9 (Damage or Destruction), and 14 (Condemnation), Lessee shall, at Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair (whether or not such portion of the Premises requiring repair, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities specifically serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire hose connections if within the Premises, fixtures, interior walls, interior surfaces of exterior walls, ceilings, floors, windows, doors, plate glass, and skylights, but excluding any items which are the responsibility of Lessor pursuant to Paragraph 7.2 below. Lessee, in keeping the Premises in good order, condition and repair, shall exercise and perform good maintenance practices. Lessee's obligations shall include restorations, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair.

(b) Lessee shall, at Lessee's sole cost and expense, procure and maintain a contract, with copies to Lessor, in customary form and substance for and with a contractor specializing and experienced in the inspection, maintenance and service of the heating, air conditioning and ventilation system for the Premises. However, Lessor reserves the right, upon notice to Lessee, to

procure and maintain the contract for the heating, air conditioning and ventilating systems. [ILLEGIBLE] Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(c) If Lessee fails to perform Lessee's obligations under this Paragraph 7.1, Lessor may enter upon the Premises after ten (10) days' prior written notice to Lessee (except in the case of an emergency, in which case no notice shall be required), perform such obligations on Lessee's behalf, and put the [ILLEGIBLE] in good order, condition and repair, in accordance with Paragraph 13.2 below.

7.2 Lessor's Obligations. Subject to the provisions of Paragraphs 2.2 (Condition), 2.3 (Compliance with Covenants, Restrictions and Building Code), 4.2 (Common Area Operating Expenses), 6 (Use), 7.1 (Lessee's Obligations), 9 (Damage or Destruction) and 14 (Condemnation), Lessor, subject to reimbursement pursuant to Paragraph 4.2, shall keep in good order, condition and repair the foundations, exterior walls, structural condition of interior bearing walls, exterior roof, fire sprinkler and/or standpipe and hose (if located in the Common Areas) or other automatic fire extinguishing system including fire alarm and/or smoke

MULTI-TENANT--MODIFIED NET  
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detection systems and equipment, fire hydrants, parking lots, walkways, parkways, driveways, landscaping, fences, signs and utility systems serving the Common Areas and all parts thereof, as well as providing the services for which there is a Common Area Operating Expense pursuant to Paragraph 4.2. Lessor shall not be obligated to paint the exterior or interior surfaces of exterior walls nor shall Lessor be obligated to maintain, repair or replace windows, doors or plate glass of the Premises. Lessee expressly waives the benefit 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 Building, Industrial Center or Common Areas in good order, condition and repair.

### 7.3 Utility Installations, Trade Fixtures, Alterations.

(a) Definitions; Consent Required. The term "Utility Installations" is used in this Lease to refer to all air lines, power panels, electrical [ILLEGIBLE] security, fire protection systems, communications systems, lighting fixtures, heating, ventilating and air conditioning equipment, plumbing, and fencing in, on, or about the Premises. The term "Trade Fixtures" shall mean Lessee's machinery and equipment which can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises which are provided by Lessor under the terms of this Lease, other than Utility Installations or Trade Fixtures. "Leases-Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility Installations made by Lessee that are not yet owned by Lessor pursuant to Paragraph 7.4(a). Lessee shall not make nor cause to be made any Alterations or Utility Installations in, on, under or about the Premises without Lessor's prior written consent. Lessee may, however, make non-structural Utility Installations to the interior of the Premises (excluding the roof) without Lessor's consent but upon notice to Lessor, so long as they are not visible from the outside of the Premises, do not involve puncturing, relocating or removing the roof or any existing walls, or changing or interfering with the fire sprinkler or fire detection systems and the cumulative cost thereof during the term of this Lease as extended does not exceed \$25,000

Initials [ILLEGIBLE]

(b) Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities; (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon; and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility Installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and be in compliance with all Applicable Requirements. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may, (but without obligation to do so) condition its consent to any requested Alteration or Utility installation that costs \$25,000 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility Installation.

(c) Lien Protection. Lessee shall pay when due all claims for labor or materials furnished or alleged to have been furnished to or for Lessee or for use on the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on, or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the Premises 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 and protect itself, Lessor and the Premises 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. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's reasonable attorneys' fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

Initials [ILLEGIBLE]

### 7.4 Ownership, Removal, Surrender, and Restoration.

(a) Ownership. Subject to Lessor's right to require their removal and to cause Lessee to become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Installations made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises. Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee-Owned Alterations and Utility Installations. Unless otherwise instructed per Subparagraph 7.4(b) hereof, all Lessee-Owned Alterations and Utility Installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon the Premises and be surrendered with the Premises by Lessee

(b) Removal. Unless otherwise agreed in writing, Lessor may require that any or all Lessee-Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding that their Installation may have been consented to by Lessor. Lessor may require the removal [ILLEGIBLE] time of all or any part of any Alterations or Utility

Installations made without the required consent of Lessor.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. Ordinary wear and tear shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified herein, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Lessee-Owned Alterations and Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Requirements and/or good practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

## 8. Insurance; Indemnity.

8.1 Payment of Premiums. The cost of the premiums for the insurance policies maintained by Lessor under this Paragraph 8 shall be a Common Area Operating Expense pursuant to Paragraph 4.2 hereof. Premiums for policy periods commencing prior to, or extending beyond, the term of this Lease shall be prorated to coincide with the corresponding Commencement Date or Expiration Date.

### 8.2 Liability Insurance.

(a) Carried by Lessee. Lessee shall obtain and keep in force during the term of this Lease a Commercial General Liability policy of insurance protecting Lessee, Lessor and any Lender(s) whose names have been provided to Lessee in writing (as additional insureds) against claims for bodily injury, personal injury and property damage based upon, involving or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be on an occurrence basis providing single limit coverage in an amount not less than \$1,000,000 per occurrence with an "Additional Insured-Managers or Lessors of Premises" endorsement and contain the "Amendment of the Pollution Exclusion" endorsement for damage caused by heat, smoke or fumes from a hostile fire. The policy shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under this Lease as an "Insured contract" for the performance of Lessee's indemnity obligations under this Lease. The limits of said insurance required by this Lease or as carried by Lessee shall not, however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor, whose insurance shall be considered excess insurance only.

(b) Carried by Lessor. Lessor shall also maintain liability insurance described in Paragraph 8.2(a) above, in addition to and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

### 8.3 Property Insurance-Building, Improvements and Rental Value.

(a) Building and Improvements. Lessor shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to any Lender(s), insuring against loss or damage to the Premises. Such insurance shall be for full replacement cost, as the same shall exist from time to time, or the amount required by any Lender(s), but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. Lessee-Owned Alterations and Utility Installations, Trade Fixtures and Lessee's personal property shall be insured by Lessee pursuant to Paragraph 8.4. If the coverage is available and commercially appropriate, Lessor's policy or policies shall insure against all risks of direct physical loss or damage (except the perils of flood and/or earthquake unless required by a Lender), including coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Building required to be demolished or removed by reason of the [ILLEGIBLE] cement of any building, zoning, safety or land use laws as the result of a covered loss, but not including plate glass insurance. Said policy or policies shall [ILLEGIBLE] contain an agreed valuation provision in lieu of any co-insurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located.

(b) Rental Value. Lessor shall also obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and any Lender(s), insuring the loss of the full rental and other charges payable by all lessees of the Building to Lessor for one year (including all Real Property Taxes, insurance costs, all Common Area Operating Expenses and any scheduled rental increases). Said insurance may provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any co-insurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, Real Property Taxes, insurance premium costs and other expenses, if any, otherwise payable, for the next 12-month period. Common Area Operating Expenses shall include any deductible amount in the event of such loss.

(c) Adjacent Premises. Lessee shall pay for any increase in the

premiums for the property insurance of the Building and for the Common Areas or other buildings in the Industrial Center if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Lessee's Improvements. Since Lessor is the Insuring Party, Lessor shall not be required to insure Lessee-Owned Alterations and Utility Installations unless the item in question has become the property of Lessor under the terms of this Lease.

8.4 Lessee's Property Insurance. Subject to the requirements of Paragraph 8.5, Lessee at its cost shall either by separate policy or, at Lessor's [ILLEGIBLE] by endorsement to a policy already carried, maintain insurance coverage on all of Lessee's personal property, Trade Fixtures and Lessee-Owned [ILLEGIBLE] and Utility Installations in, on, or about the Premises similar in coverage to that carried by Lessor as the Insuring Party under Paragraph 8.3(a). Such insurance shall be full replacement cost coverage with a deductible not to exceed \* \* per occurrence. The proceeds from any such insurance shall be used by Lessee for the replacement of personal property and the restoration of Trade Fixtures and Lessee-Owned Alterations and Utility Installations. Upon request from [ILLEGIBLE], Lessee shall provide Lessor with written evidence that such insurance is in force. \* \*-\$10,000

8.5 Insurance Policies. Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least B+, V, or such other rating as may be required by a Lender, as [ILLEGIBLE] 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 referred to in

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this Paragraph 8. Lessee shall cause to be delivered to Lessor, within seven (7) days after the earlier of the Early Possession Date or the Commencement Date, certified copies of, or certificates evidencing the existence and amounts of, the insurance required under Paragraph 8.2(a) and 8.4. No such policy shall be cancelable or subject to 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 evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage to their property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Lessor and Lessee agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

8.7 Indemnity. Except for Lessor's negligence and/or breach of express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and lenders, from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, loss of permits, attorneys' and consultants' fees, expenses and/or liabilities arising out of, involving, or in connection with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any act, omission or neglect of Lessee, its agents, contractors, employees or invitees, and out of any Default or Breach by Lessee in the performance in a timely manner of any obligation on Lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, 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. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 Exemption of Lessor from Liability. Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, 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, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said injury or damage results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other lessee of Lessor nor from the failure by Lessor to enforce the provisions of any other lease in the Industrial Center. Notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

## 9. Damage or Destruction.

### 9.1 Definitions.

(a) "Premises Partial Damage" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is less than fifty percent (50%) of the then Replacement Cost (as defined in Paragraph 9.1(d)) of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction.

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations, the repair cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost of the Premises (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures) immediately prior to such damage or destruction. In addition, damage or destruction to the Building, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building, the cost of which damage or destruction is fifty percent (50%) or more of the then Replacement Cost (excluding Lessee-Owned Alterations and Utility Installations and Trade Fixtures of any lessees of the Building) of the Building shall, at the option of Lessor, be deemed to be Premises Total Destruction.

(c) "Insured Loss" shall mean damage or destruction to the Premises, other than Lessee-Owned Alterations and Utility Installations and Trade Fixtures, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a) irrespective of any deductible amounts or coverage [ILLEGIBLE] involved.

(d) "Replacement Cost" shall mean the cost to repair or rebuild the improvements owned by Lessor at the time of the occurrence to their condition existing immediately prior thereto, including demolition, debris removal and upgrading required by the operation of applicable building codes, ordinances or laws, and without deduction for depreciation.

(e) "Hazardous Substance Condition" shall mean the occurrence or discovery of a condition involving the presence of, or a contamination by, a

Hazardous Substance as defined in Paragraph 6.2(a), in, on, or under the Premises.

9.2 Premises Partial Damage - Insured Loss. If Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee-Owned Alterations and Utility Installations) as soon as reasonably possible and this Lease shall continue in full force and effect. In the event, however, that there is a shortage of insurance proceeds and such shortage is due to the fact that, by reason of the unique nature of the improvements in the Premises, full replacement cost insurance coverage was not commercially reasonable and available, Lessor shall have no obligation to pay for the shortage in insurance proceeds or to fully restore the unique aspects of the Premises unless Lessee provides Lessor with the funds to cover same, or adequate assurance thereof, within ten (10) days following receipt of written notice of such shortage and request therefor. If Lessor receives said funds or adequate assurance thereof within said ten (10) day period, Lessor shall complete them as soon as reasonably possible and this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within said period, Lessor may nevertheless elect by written notice to Lessee within ten (10) days thereafter to make such restoration and repair as is commercially reasonable with Lessor paying any shortage in proceeds, in which case this Lease shall remain in full force and effect. If Lessor does not receive such funds or assurance within such ten (10) day period, and if Lessor does not so elect to restore and repair, then this Lease shall terminate sixty (60) days following the occurrence of the damage or destruction. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for any funds contributed by Lessee to repair any such damage or destruction. Premises Partial Damage due to flood or earthquake shall be subject to Paragraph 9.3 rather than Paragraph 9.2, notwithstanding that there may be some insurance coverage, but the net proceeds of any such insurance shall be made available for the repairs if made by either Party.

9.3 Partial Damage - Uninsured Loss. If Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect), 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 receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to 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 commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following such commitment from Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.4 Total Destruction. Notwithstanding any other provision hereof, if Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 9.7.

9.5 Damage Near End of Term. If at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair [ILLEGIBLE] one month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage. Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by (a) exercising such option, and (b) providing Lessor with any shortage in insurance proceeds (or adequate assurance thereof) needed to make the repairs on or before the earlier of (i) the date which is ten (10) days after Lessee's receipt of Lessor's written notice purporting to terminate this Lease, or (ii) the day prior to the date upon which such option expires. If Lessee duly exercises such option during such period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during such period, then this Lease shall terminate as of the date set forth in the first sentence of this Paragraph 9.5.

#### 9.6 Abatement of Rent; Lessee's Remedies.

(a) In the event of (i) Premises Partial Damage or (ii) Hazardous Substance Condition for which Lessee is not legally responsible, the Base Rent, Common Area Operating Expenses and other charges, if any, payable by Lessee hereunder for the period during which such damage or condition, its repair, remediation or restoration continues, shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired, but not in excess of proceeds from insurance required to be carried under Paragraph 8.3(b). Except for abatement of Base Rent, Common Area Operating Expenses and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair, remediation 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, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate [ILLEGIBLE] on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or [ILLEGIBLE] is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a [ILLEGIBLE] commences the repair or restoration of the Premises within thirty (30) days after the receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph 9.6 shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever occurs first.

9.7 Hazardous Substance Conditions. If a Hazardous Substance Condition occurs, unless Lessee is legally responsible therefor (in which case Lessee shall make the investigation and remediation thereof required by Applicable Requirements and this Lease shall continue in full force and effect, but subject

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-5-

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to Lessor's rights under Paragraph 6.2(c) and Paragraph 13), Lessor may at Lessor's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or \$100,000 whichever is greater, give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such Hazardous Substance Condition of Lessor's desire to terminate this Lease as of the date sixty (60) days following the date of such notice. In the event Lessor elects to give such notice of Lessor's intention to 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 commitment to pay for the excess costs of (a) investigation and remediation of such Hazardous Substance Condition to the extent required by Applicable Requirements, over (b) an equal amount equal to twelve (12) times the then monthly Base Rent or \$100,000, whichever is greater. Lessee shall provide Lessor with the funds required of Lessee or satisfactory [ILLEGIBLE] thereof within thirty (30) days following said commitment by Lessee. In such event this Lease shall continue in full force and effect, and Lessor shall [ILLEGIBLE] make such investigation and remediation as soon as reasonably possible after the required funds are available. If Lessee does not give such notice and provide the required funds or assurance thereof within the time period specified above, this Lease shall terminate as of the date specified in Lessor's notice of termination.

9.8 Termination, Advance Payments. Upon termination of this Lease pursuant to this Paragraph 9. Lessor shall return to Lessee any advance payment made by Lessee to Lessor and so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 Waiver of Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises and the Building with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent it is inconsistent herewith.

## 10. Real Property Taxes.

10.1 Payment of Taxes. Lessor shall pay the Real Property Taxes, as defined in Paragraph 10.2, applicable to the Industrial Center, and except as otherwise provided in Paragraph 10.3, any such amounts shall be included in the calculation of Common Area Operating Expenses in accordance with the provisions of Paragraph 4.2.

10.2 Real Property Tax Definition. As used herein, the term "Real Property Taxes" 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 upon the Industrial Center by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage, or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Industrial Center or any portion thereof, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in Applicable Law taking effect, during the term of this Lease, including but not limited to a change in the ownership of the Industrial Center or in the improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties. In calculating Real Property Taxes for any calendar year, the Real Property Taxes for any real estate tax year shall be included in the calculation of Real Property Taxes for such calendar year based upon the number of days which such calendar year and tax year have in common.

10.3 Additional Improvements. Common Area Operating Expenses shall not include Real Property Taxes 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. Notwithstanding Paragraph 10.1 hereof, Lessee shall, however, pay to Lessor at the time Common Area Operating Expenses are payable under Paragraph 4.2, the entirety of any increase in Real Property Taxes if assessed solely by reason of Alterations, Trade Fixtures or Utility Installations placed upon the Premises by Lessee or at Lessee's request.

10.4 Joint Assessment. If the Building is not separately assessed, Real Property Taxes allocated to the Building 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 Lessee's Property Taxes. Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee-Owned Alterations and Utility installations, Trade Fixtures, furnishings, equipment and all personal property of Lessee contained in the Premises or stored within the Industrial Center. When [ILLEGIBLE], Lessee shall cause its Lessee-Owned Alterations and Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property to be [ILLEGIBLE] and billed separately from the real property of Lessor. If any of Lessee's said property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee's property within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

11. Utilities. Lessee shall pay directly for all utilities and services supplied to the Premises, including but not limited to electricity, telephone, security, gas and cleaning of the Premises, together with any taxes thereon. If any such

utilities or services are not separately metered to the Premises or separately billed to the Premises, Lessee shall pay to Lessor a reasonable proportion to be determined by Lessor of all such charges jointly metered or billed with other premises in the Building, in the manner and within the time periods set forth in Paragraph 4.2(d).

## 12. Assignment and Subletting.

### 12.1 Lessor's Consent Required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively, "assign") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 36.

(b) A change in the control of Lessee shall constitute an assignment requiring Lessor's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise), whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the Net Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such Net Worth of Lessee as it was represented to Lessor at the time of full execution and delivery of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said transaction or transactions constituting such reduction, at whichever time said Net Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "Net Worth of Lessee" for purposes of this Lease shall be the net worth of Lessee (excluding any Guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1, or a non-curable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a non-curable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days, written notice ("Lessor's Notice"), increase the monthly Base Rent for the Premises to the greater of the then fair market rental value of the Premises, as reasonably determined by Lessor, or one hundred ten percent (110%) of the Base Rent then in effect, Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and rental adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value as reasonably determined by Lessor (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition) or one hundred ten percent (110%) of the price previously in effect, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new rental bears to the Base Rent in effect immediately prior to the adjustment specified in Lessor's Notice.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and/or injunctive relief.

### 12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, nor (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent for performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by Lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the assignee or 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 under this Lease or the sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or the sublease.

(d) In the event of any Default or Breach of Lessee's obligation under this Lease, Lessor may proceed directly against Lessee, any Guarantors or anyone else responsible for the performance of the Lessee's obligations under this Lease, including any sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or [ILLEGIBLE] modification of the Premises, if any, together with a non-refundable deposit of \$1,000 or ten percent (10%) of the monthly Base Rent applicable to the [ILLEGIBLE] the Premises which is the subject of the proposed assignment or sublease, whichever is greater, as reasonable consideration for Lessor's considering and [ILLEGIBLE] the request for consent. Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of accepting such assignment or entering into such sublease, be deemed, [ILLEGIBLE] benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

MULTI-TENANT--MODIFIED NET  
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-6-

Initials: [ILLEGIBLE]

(g) The occurrence of a transaction described in Paragraph 12.2(c) shall give Lessor the right (but not the obligation) to require that the Security Deposit be increased by an amount equal to six (6) times the then monthly Base Rent, and Lessor may make the actual receipt by Lessor of the Security Deposit Increase a condition to Lessor's consent to such transaction.

(h) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment schedule of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment schedule for property similar to the Premises as then constituted, as determined by Lessor.

12.3 Additional Terms and Conditions Applicable to Subletting. The following terms and conditions shall apply to any subletting by Lessee of all or [ILLEGIBLE] of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises 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 Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease. Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of the foregoing provision 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 Breach exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or right to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee 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 the sublessor under such sublease from the time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior defaults or breaches of such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) No sublessee under a sublease approved by Lessor shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

### 13. Default; Breach; Remedies.

13.1 Default; Breach. Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), \$350.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said default. A "Default" by Lessee is defined as a failure by Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "Breach" by Lessee is defined as the occurrence of any one or more of the following Defaults, and, where a grace period for cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, and shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent, Lessee's Share of Common Area Operating Expenses, or any other monetary payment required to be made by Lessee hereunder as and when due, the failure by Lessee to provide Lessor [ILLEGIBLE] evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers [ILLEGIBLE] life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Requirements per Paragraph 6.3, (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the rescission of an unauthorized assignment or subletting per Paragraph 12.1, (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of

this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof that are to be observed, complied with or performed by Lessee, other than those described in Subparagraphs 13.1(a), (b) or (c), above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently prosecutes such cure to completion.

(e) The occurrence of any of the following events: (i) the making by Lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11 U.S. Code 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; provided, however, in the event that any provision of this Subparagraph 13.1(e) is contrary to any applicable law, such provision shall be of no force or effect, and shall not affect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement of Lessee or of any Guarantor, given to Lessor by Lessee or any Guarantor, was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a Guarantor, (ii) the termination of a Guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty, (iii) a Guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a Guarantor's refusal to honor the guaranty, or (v) a Guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurances of security, which, when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the Guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor. If any check given to Lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its own option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a Breach of this Lease by Lessee (as defined in Paragraph 13.1), with or without further notice or demand, and without limiting Lessor in the [ILLEGIBLE] of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(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: (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (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 that the Lessee proves could have been reasonably avoided; (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 the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom 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 attorneys' fees, and that portion of any leasing commission paid by Lessor in connection with this Lease applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the immediately preceding sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco or the Federal Reserve Bank District in which the Premises are located at the time of award plus one percent (1%). Efforts by Lessor to mitigate damages caused by Lessee's Default or Breach of this Lease shall not waive Lessor's right to recover damages under this Paragraph 13.2. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, Lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lessor may reserve the right to recover all or any part thereof in a separate suit for such rent and/or damages. If a notice and grace period required under Subparagraph 13.1(b), (c) or (d) was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by Subparagraph 13.1(b), (c) or (d). In such case, the applicable grace period under the

unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two (2) such grace periods shall constitute both an [ILLEGIBLE] detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this Lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. Lessor and Lessee agree [ILLEGIBLE] the limitations on assignment and subletting in this Lease are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under this Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premise are located.

MULTI-TENANT--MODIFIED NET  
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-7-

Initials: [ILLEGIBLE]

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture In Event of Breach. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of which concessions are hereinafter referred to as "Inducement Provisions" shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach (as defined in Paragraph 13,1) of this Lease by Lessee, any such Inducement Provision shall automatically be deemed deleted from this Lease and of no [ILLEGIBLE] force or effect, and any rent, other charge, bonus, inducement or consideration theretofore abated, given or paid by Lessor under such an Inducement [ILLEGIBLE] shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor, as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. The acceptance by Lessor of rent or the cure of the Breach which Initiated the operation of this Paragraph 13.3 shall not be deemed a waiver by Lessor of the provisions of this Paragraph 13.3 unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to Lessor of rent and 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 upon Lessor by the terms of any ground lease, mortgage or deed of trust covering the Premises. Accordingly, if any installment of rent or 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 six percent (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 or Breach 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 Base Rent, then notwithstanding Paragraph 4,1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Breach by Lessor. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by any Lender(s) whose name and address shall have been furnished to Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed; provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. Condemnation. If the Premises or any portion thereof 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 (10%) of the floor area of the Premises, or more than twenty-five percent (25%) of the portion of the Common Areas designated for Lessee's parking, is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing 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 Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the Premises. No reduction of Base Rent shall occur if the condemnation does not apply to any portion of the Premises. 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 of value of the leasehold or for the taking of the fee, or as severance damages: provided, however, that Lessee shall be entitled to any compensation, separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above Lessee's Share of the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair.

## 15. Brokers' Fees.

15.1 Procuring Cause. The Broker(s) named in Paragraph 1.10 is/are the procuring cause of this Lease.

15.2 Additional Terms. Unless Lessor and Broker(s) have otherwise agreed in writing, Lessor agrees that: (a) if Lessee exercises any Option (as defined



in Paragraph 39.1) granted under this Lease or any Option subsequently granted, or (b) if Lessee acquires any rights to the Premises or other premises in which Lessor has an interest, or (c) if Lessee remains in possession of the Premises with the consent of Lessor after the expiration of the term of this Lease after having failed to exercise an Option, or (d) if said Brokers are the procuring cause of any other lease or sale entered into between the Parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, or (e) if Base Rent is increased, whether by agreement or operation of an escalation clause herein, then as to any of said transactions, Lessor shall pay said Broker(s) a fee in accordance with the schedule of said Broker(s) in effect at the time of the execution of this Lease.

15.3 Assumption of Obligations. Any buyer or 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. Each Broker shall be an intended third party beneficiary of the provisions of Paragraph 1,10 and of this Paragraph 15 to the extent of its interest in any commission arising from this Lease and may enforce that right directly against Lessor and its successors.

15.4 Representations and Warranties. Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person, firm, broker or finder other than as named in Paragraph 1.10(a) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Broker(s) is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, and/or attorneys' fees reasonably incurred with respect thereto.

#### 16. Tenancy and Financial Statements.

16.1 Tenancy Statement. Each Party (as "Responding Party") shall within ten (10) days after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in a form similar to the then most current "Tenancy Statement" form published by the American Industrial Real Estate Association, plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 Financial Statement. If Lessor desires to finance, refinance, or sell the Premises or the Building, or any part thereof, Lessee and all Guarantors shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. 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 the owner or owners at the time in question of the fee title to the Premises. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15.3, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

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. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within ten (10) days following the date on which it was due, shall bear interest from the date due at the prime rate charged by the largest state chartered bank in the state in which the Premises are located plus four percent (4%) per annum, but not exceeding the maximum rate allowed by law, in addition to the potential late charge provided for in Paragraph 13.4.

20. Time of Essence. Time is of the essence with respect to the performance of all obligations to be performed or observed by the Parties under this Lease.

21. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. No Prior or other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein and no other prior or contemporaneous agreement or understanding shall be effective. [ILLEGIBLE]

#### 23. Notices.

23.1 Notice Requirements. All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission during normal business hours, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written 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 the purpose of mailing or delivering notices to Lessee. 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 written notice to Lessee.

23.2 Date of Notice. Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon, If sent by regular mail, the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day

MULTI-TENANT--MODIFIED NET  
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-8-

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delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone or facsimile confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Saturday or a Sunday or a legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or any other term, covenant or condition hereof. Lessor's consent to, or approval of, any such act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by [ILLEGIBLE] or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease requiring such consent. Regardless of Lessor's knowledge of a Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any Default or Breach by Lessee of any provision hereof. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

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. The Party requesting recordation shall be responsible for payment of any fees or taxes applicable thereto.

26. No Right To Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. In the event that Lessee holds over in violation of this Paragraph 26 then the Base Rent payable from and after the time of the expiration or earlier termination of this Lease shall be increased to two hundred percent (200%) of the Base Rent applicable during the month immediately preceding such expiration or earlier termination. Nothing contained herein shall be construed as a consent by Lessor to any holding over by Lessee.

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. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. Binding Effect; Choice of Law. This Lease shall be binding upon the Parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation, Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default pursuant to Paragraph 13.5. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend [ILLEGIBLE] hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. Attorneys' Fees. If any Party or Broker brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as

hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorneys' fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term "Prevailing Party" shall include, without limitation, a Party or Broker who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party or Broker of its claim or defense. The attorneys' fee award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorneys' fees reasonably incurred. Lessor shall be entitled to attorneys' fees, costs and expenses incurred in preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach. Broker(s) shall be intended third party beneficiaries of this Paragraph 31.

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the Building, as Lessor may reasonably deem necessary. Lessor may at any time place on or about the Premises or Building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred eighty (180) days of the term hereof place on or the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises 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 new sign upon the exterior of the Premises or the Building, except that Lessee may, with Lessor's prior written consent, install (but not on the roof) such signs as are reasonably required to advertise Lessee's own business so long as such signs are in a location designated by Lessor and comply with Applicable Requirements and the signage criteria established for the Industrial Center by Lessor. Lessor hereby approves Lessee's existing signs irrespective of the requirements of Exhibit D herein. The [ILLEGIBLE] installation of any sign on the Premises by or for Lessee shall be subject to the provisions of Paragraph 7 (Maintenance, Repairs, Utility Installations, Trade Fixtures and Alterations). Unless otherwise expressly agreed herein, Lessor reserves all rights to the use of the roof of the Building, and the right to install advertising signs on the Building, including the roof, which do not unreasonably interfere with the conduct of Lessee's business; Lessor shall be entitled to all revenues from such advertising signs.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender, termination or cancellation, have the option to continue any one or all of any existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an [ILLEGIBLE] or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' and other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment a subletting or the presence or use of a Hazardous Substance, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. In addition to the deposit described in Paragraph 12.2(e), Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the impositions by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. Guarantor.

[ILLEGIBLE]

Quiet Possession. Upon payment by Lessee of the rent for the Premises and the performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

Initials: [ILLEGIBLE]

### 39. Options.

39.1 Definition. As used in this Lease, the word "Option" has the following meaning: (a) the right 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; (b) the 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 property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase the Premises, or the right 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 to Original Lessee. Each Option granted to Lessee in this Lease is personal to the original Lessee named Paragraph 1.1[ILLEGIBLE], and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention of thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, 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 Options to extend or renew this Lease have been validly 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 period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor has given to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during the twelve (12) month period immediately preceding the exercise of the Option, whether or not the Defaults are cured.

(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) Lessor gives to Lessee three (3) or more notices of separate Defaults under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Rules and Regulations. Lessee agrees that it will abide by, and keep and observe all reasonable rules and regulations ("Rules and Regulations") which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenants of the Building and the Industrial Center and their invitees.

41. Security Measures. Lessee hereby acknowledges that the rental payable to Lessor hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises. Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights of way, utility raceways, and dedications that Lessor deems necessary, and to cause the recordation of parcel maps and restrictions, so long as such easements, rights of way, utility raceways, dedications, maps and restrictions do not reasonably interfere with the use of the Premises by Lessee. Lessee agrees to sign any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. 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 [ILLEGIBLE] 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 [ILLEGIBLE] legally required to pay under the provisions of this Lease.

44. Authority. If either Party hereto 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 its behalf. If Lessee is a corporation, trust or partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or

handwritten provisions.

46. Otter. Preparation of this Lease by either Lessor or Lessee or Lessor's agent or Lessee's agent and submission of same to Lessee or Lessor shall not be deemed an offer to lease. This Lease is not intended to be binding until executed and delivered by all Parties hereto.

47. Amendments. This Lease may be modified only In writing, signed by the parties in interest at the time of the modification. The Parties shall amend this Lease from time to lime to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional insurance company or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such multiple parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

MULTI-TENANT--MODIFIED NET  
(C) American Industrial Real Estate Association 1993

-10-

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LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE 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.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR YOUR ATTORNEY'S REVIEW AND APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY FOR THE POSSIBLE PRESENCE OF ASBESTOS, UNDERGROUND STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKERS OR THEIR CONTRACTORS, AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS IN A STATE OTHER THAN CALIFORNIA. AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place and on the dates specified above their respective signatures.

Executed at: Newport Beach, Ca Executed at: \_\_\_\_\_

on: August 30, 2000 on: \_\_\_\_\_

By LESSOR: By LESSEE:

ORANGEEWOOD BUSINESS CENTER, INC., QUALITY SYSTEMS INC.,  
-----

a California corporation a California corporation  
-----

By: /s/ Mark R. Poochigian By: /s/ Gregory S. Flynn  
-----

Name Printed: Mark R. Poochigian Name Printed: Gregory S. Flynn  
-----

Title: Its President Title: Executive Vice President & Gnrl Mgr  
-----

By: /s/ Diane Whitt By: \_\_\_\_\_  
-----

Name Printed: Diane Whitt Name Printed: \_\_\_\_\_  
-----

Title: Its Vice President Title: \_\_\_\_\_  
-----

Address: 5000 Birch St., West Tower, Suite 9500 Address: 17822 E. 17th Street, Suite 210  
-----

Newport Beach, CA 92660 Tustin, CA 92680  
-----

Telephone: (949) 476-1974 Telephone: (714) 731-7171  
-----

Facsimile: (949) 476-1171 Facsimile: (714) 544-0355  
-----

BROKER: BROKER:

Executed at: Executed at: \_\_\_\_\_  
-----

on: on: \_\_\_\_\_  
-----

By: By: \_\_\_\_\_  
-----

Name Printed: Name Printed: \_\_\_\_\_  
-----

Title: Title: \_\_\_\_\_  
-----

Address: Address: \_\_\_\_\_  
-----

Telephone: ( ) Telephone: ( )  
-----

Facsimile: ( ) Facsimile: ( )  
-----



NOTE: These forms are often modified to meet changing requirements of law and needs of the industry. Always write or call to make sure you are utilizing the most current form: AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION, 345 So. Figueroa St., M-1, Los Angeles, CA 90071. (213) 687-8777.

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-11-

Initials: [ILLEGIBLE]

ADDENDA TO LEASE AGREEMENT

THIS ADDENDA is attached to and, by this reference, made a part of the Lease Agreement dated April 3, 2000 made by and between ORANGEWOOD BUSINESS CENTER, INC., a California corporation, as Lessor and Quality Systems, Inc. a California corporation, as Lessee for the Premises located at 1701 E. Edinger Avenue, Bldg. E, Units 5 - 8, Santa Ana, California.

49. COMPLIANCE WITH LAW

-----

49.1 Compliance with Law.

Lessee, at Lessee's expense, shall comply with all laws, rules, orders, ordinances, directions, regulations and requirements of federal, state, county and municipal authorities pertaining to Lessee's use of the Premises and with the recorded covenants, conditions and restriction, regardless of when they become effective, including, with limitation, all applicable federal, state and local laws, regulations or ordinances pertaining to air and water quality, Hazardous Materials (as hereinafter defined), waste disposal, air emissions and other environmental matters, all zoning and other land use matters, and utility availability, and with any direction of any public officer or officers, pursuant to law, which shall impose any duty upon Lessor or Lessee with respect to the use or occupation of the Premises.

49.2 Use of Hazardous Materials.

(1) Lessee shall (i) not cause or permit any Hazardous Material to be brought upon, kept or used in or about the Premises or the Project by Lessee, its agents, employees, contractors or invitees without the prior written consent of Lessor, which Lessor shall not reasonable withhold as long as Lessee demonstrates to Lessor's reasonable satisfaction that such Hazardous Material is necessary or useful to Lessee's business and will be used, kept and stored in a manner that complies with all laws regulating any such Hazardous Material so brought upon or used or kept in or about the premises. If Lessee breaches the obligations stated in the preceding sentence, or if the presence of Hazardous Material on the Premises or the Project caused or permitted by Lessee results in contamination of the Premises or the Project, or if contamination of the Premises or the Project by Hazardous Material otherwise occurs for which Lessee is legally liable to Lessor for damage resulting therefrom, then Lessee shall indemnify, defend and hold Lessor harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities or losses (including, without limitation, diminution in value of the Premises or the Project, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises or the Project, damages arising from any adverse impact on marketing of space, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during or after the Lease term as a result of such contamination.

This indemnification of Lessor by Lessee includes, without limitation, costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Premises or the Project. Without limiting the foregoing, if the presence of any Hazardous Material on the Premises or the Project caused or permitted by Lessee results in any contamination of the Premises or the Project, Lessee shall promptly take all actions at its sole expense as are necessary to return the Premises and the Project to the condition existing prior to the introduction of any such Hazardous Material to the Premises or the Project; provided that Lessor's approval of such actions shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or the Project. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

(2) Definition of "Hazardous Material". As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste, including, but not limited to, those substances, materials, and wastes listed in the United States Department of Transportation Hazardous Materials Table (49 CFR 172.101) or by the Environmental Protection Agency as hazardous substances (40 CFR Part 302) and amendments thereto, or such substances, materials and wastes that are or become regulated under any applicable local, state or federal law.

(3) Disclosure. At the commencement of this Lease, and on January 1 of each year thereafter (each such date being hereafter called "Disclosure Dates"), including January 1 of the year after the termination of this Lease, Lessee shall disclose to Lessor the names and amounts of all Hazardous Materials, or any combination thereof, which were stored, used or disposed of on or about the Premises, or which Lessee intends to store, use or dispose of on or about the Premises.

(4) Inspection. Lessor and its agents shall have the right, but not the duty, to inspect the premises and the Project at any time to determine whether Lessee is complying with the terms of this Lease. If Lessee is not in compliance with this Lease, Lessor shall have the right to immediately enter upon the Premises and the Project to remedy any contamination caused by Lessee's failure to comply notwithstanding any other provision of this Lease. Lessor shall

use its best efforts to minimize interference with Lessee's business but shall not be liable for any interference caused hereby.

(5) Default. Any default under this Paragraph shall be a material default enabling Lessor to exercise any of the remedies set forth in this Lease.

50. ACCEPTANCE OF PREMISES IN "AS IS" CONDITION

Upon delivery of possession of the demised premises to Lessee, Lessee agrees to take the demised premises, the building in which the demised premises are located, the common area including the parking areas, "as is". Lessee acknowledges that the taking of possession of the demised premises by Lessee shall be conclusive evidence that the demised premises, the building in which the demised premises are located, the common area including the parking area, are in a condition satisfactory to Lessee.

51. SECURITY DEPOSIT

Lessor currently holds a Security Deposit of \$4,067.38 on the account of Lessee from a lease agreement dated September 12, 1994 for the Premises at 1701 E. Edinger Avenue, Bldg. E, Units 5 - 8, Santa Ana, California, same principles, which shall be applied toward this Lease as Security Deposit as outlined in Paragraph 5, dated April 3, 2000.

52. OPTION TO EXTEND THE TERM

Lessor hereby grants to Lessee an Option to Extend ("Option") the term of this Lease for one (1) period of two (2) years commencing on April 1, 2001 and ending on March 31, 2003 ("Option Period"). This Option is granted with the following conditions:

- a. Lessee shall not have defaulted or breached the Lease at any time during its original term.
- b. Lessee shall be in possession of the Premises at the time the Option is exercised and shall continue to be in possession during the Option Period.
- c. Lessee shall give Lessor written notice that Lessee is exercising the Option with such notice to be delivered to Lessor at least six (6) months but not more than nine (9) months before the expiration of the initial term of this Lease.
- d. All the terms, conditions, covenants, restrictions and agreements that are applicable to the original lease term shall also apply to the Option except that the Base Rent for the first year shall be \$9,256.80 (\$.70 per square foot). The Base Rent for the subsequent years shall increase annually by \$.05 per square foot.
- e. THIS OPTION IS CONSIDERED PERSONAL TO THE LESSEE NAMED ABOVE AND MAY NOT BE ASSIGNED TO THIRD PARTIES.
- f. Should Lessee exercise their option, Lessor will provide at Lessor's sole cost and expense the following improvements:
  - o Lessor to paint office area with building standard paint.
  - o Lessor to provide building standard carpet throughout office area.
  - o Lessor to provide building standard VCT as indicated.

LESSOR:  
ORANGEWOOD BUSINESS CENTER, INC.  
a California corporation

LESSEE:  
QUALITY SYSTEMS, INC.  
a California corporation

By: /s/ Mark R. Poochigian  
-----  
Mark R. Poochigian  
Its President

By: /s/ Gregory S. Flynn  
-----  
Gregory S. Flynn  
Executive Vice President and  
General Manager

By: /s/ Diane Whitt  
-----  
Diane Whitt  
Its Vice President

Initials: [ILLEGIBLE]

EXHIBIT "A"

SITE PLAN AND FLOOR PLAN

=====  
THIS EXHIBIT "A", Site Plan and Floor Plan, is hereby attached to and made a part of the Lease Agreement dated April 3, 2000 made by and between ORANGEWOOD BUSINESS CENTER, INC., a California corporation, as Lessor and Quality Systems, Inc. a California corporation, as Lessee for the Premises located at 1701 E. Edinger Avenue, Bldg. E, Units 5 - 8, Santa Ana, California.  
=====

SITE PLAN

[FLOOR PLAN OMITTED]

Initials: [ILLEGIBLE]

EXHIBIT "C"

RULES AND REGULATIONS

=====  
THIS EXHIBIT "C", Rules and Regulations, is hereby attached to and made a part of the Lease Agreement dated April 3, 2000 made by and between ORANGEWOOD BUSINESS CENTER, INC., a California corporation, as Lessor and Quality Systems, Inc. a California corporation, as Lessee for the Premises located at 1701 E. Edinger Avenue, Bldg. E, Units 5 - 8, Santa Ana, California.  
=====

1. The sidewalks, entrances and public corridors shall remain unobstructed at all times. Loitering in any part of the Business Park or obstruction of any means of ingress or egress shall not be permitted. Doors and windows shall not be covered or obstructed.
2. Plumbing fixtures shall not be used for any purposes other than those for which they were constructed and no rubbish, newspapers, trash or other cleaning substances of any kind shall be thrown into them.
3. Walls, floors, and ceilings shall not be defaced in any way and no one shall be permitted to mark, drive nails, screw or drill into, paint, or in any way mar any building surface, except that pictures, certificates, licenses, and similar items normally used in Lessee's business may be carefully attached to the walls. Upon removal of such items by Lessee, any damage to the walls or other surfaces shall be repaired by Lessee. Lessee shall not be responsible for any damage resulting from normal wear and tear, or any damage previously agreed upon in writing.
4. No improper noises, vibrations, or odors will be permitted in the Business Park, nor shall any person be permitted to interfere in any way with Lessee or those having business with them. No person will be permitted to bring or keep within the Business Park any animal.
5. Owner reserves the right to exclude or expel from the Business Park any person who in the judgment of the Owner is intoxicated or under the influence of liquor or drugs or who shall in any matter do any act in violation of the rules and regulations of said Business Park.
6. The requirements of Lessee will be attended to only upon application at the Office of the Park's Management of such other place that Owner may elect. Owner's employees shall not perform any work or do anything outside of their regular duties unless under special instructions from Management.
7. No washing of cars, trucks or equipment in any part of the Business Park shall be allowed. No washing down of painting materials or other matter which will stain the paving or leave permanent markings. Damage will be repaired at Lessee's expense.
8. Lessee agrees all trash and debris is to be deposited in receptacles within the complex and all bins shall remain inside trash enclosure areas. Where your business necessitates the handling of other large quantities or types of disposable materials such as packing boxes, pallets, containers, etc., you may store same outside your premises against an exterior wall next to your overhead door on the days you are scheduled for special pick-up of these materials only. At all other times, your disposable trash and debris is to be stored inside your unit unless it can be broken down and placed in a trash receptacle.
9. Lessee agrees there is to be no outside work activity or storage of any kind outside on the premises. All paved areas, including parking spaces, driveways, and alleys are to be kept clean and clear at all times except for legitimate parking of vehicles as allowed by your lease or for temporary loading as required by your business.
10. Lessee at its sole cost and expense shall be required to place, construct, and maintain on the Premises one sign, as approved by Owner, and other signs or advertising material shall be permitted. Such signs shall be typical in size, material, location and color as presently existing in the park as stated in your Lease.
11. Lessee shall not conduct or permit to be conducted on the Premises any auction without the written consent of Owner.
12. All construction or work of any kind done in Lessee's suite may only be performed by a California contractor and upon receipt and written approval, prior to commencement of work, by Owner, which shall include but not limited to the following: working drawings, copies of all necessary permits, contractors agreements, completion bonds, and certificates of insurance. Owner agrees not to unreasonably withhold its consent.
13. The cost of repairing any damage of any kind caused by any Lessee, its employees, guests, agents or invitees whether by negligence, carelessness or for any other reason shall be paid by Lessee.

14. Owner reserves the right at any time to change or rescind any one or more of these rules or regulations or to make such other and further reasonable rules and regulation as in Owner's judgment may from time to time be necessary for the management, safety, care and cleanliness of the Premises, and for the preservation of good order therein, as well as for the convenience of other occupants and Lessees therein. Owner shall not be responsible to Lessee herein or to any other person for the non-observance or violation of the rules and regulations by any other Lessee herein or to any other person for the non-observance or violation of the rules and regulations by any other Lessee or other person. Lessee shall be deemed to have read these rules and to have agreed to abide by them as a condition to his occupancy of the space herein Leased.
15. No sign, placard, picture, advertisement, name or notice shall be inscribed, displayed or printed or affixed on or to any part of the outside of the building without the written consent of Lessor and, in the absence of such written consent, Lessor shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Lessee.
16. All approved signs or lettering on doors shall be printed, painted, affixed or inscribed at the expense of Lessee by a person approved of by Lessor.
17. Lessee shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises, provided, however, that Lessor may furnish and install building standard window coverings at all exterior windows. Lessee shall not, without prior written consent of Lessor, sunscreen any window.
18. Lessee shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Lessor or other occupants of the Building by reason of excessive noise, odors and/or vibrations, or interfere in any way with other Lessees or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises of the Building. No Lessee shall make or permit to be made any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring Buildings or Premises or those having business with them whether by the use of any musical instrument, radio, phonograph, unusual noise, or in any other way. No Lessee shall throw anything out of doors or down the driveways.
19. Lessee shall not use or keep in the Premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material, unless approved by appropriate fire department and the Lessor. Lessee shall see that the doors of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Lessee or Lessee's employees leave the building, and that all electricity shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Lessee shall make good all injuries sustained by other Lessees or occupants of the Building or Lessee.
20. Lessee agrees that it shall comply with all fire and security regulations that may be issued from time to time by Lessor or government entity.
21. Lessee shall dispose of trash into the trash dumpsters provided. Lessee shall not leave trash inside the trash enclosure. Lessee shall not use the trash containers to dispose of any trash or refuse from other locations nor shall Lessee move the containers from the enclosures for any reason.
22. Lessee shall neither store nor permit to be stored any goods, machinery, merchandise, equipment, or any other items whatsoever in the common Area without the prior written consent of Lessor.
23. No overnight parking shall be allowed without the specific prior consent of the Lessor.
24. All driveways and ingress and egress areas shall be kept clear at all times for the common benefit of all Lessees.
25. Lessor reserves the right to make such other rules and regulations as it deems necessary for the safety, care and cleanliness of the Premises, Buildings and Common Areas and for the preservation of good order therein. Lessee agrees to abide by all such rules and regulations when they are adopted.
26. Lessor reserves the right by written notice to Lessee, to rescind, alter or waive any rule or regulation at any time prescribed for the Building when, in Lessor's judgment, it is necessary, desirable or proper for the best interest of the building and its occupants.

Initials: [ILLEGIBLE]

EXHIBIT "D"

SIGNAGE

=====

THIS EXHIBIT "D", Signage, is hereby attached to and made a part of the Lease Agreement dated April 3, 2000 made by and between ORANGEWOOD BUSINESS CENTER, INC., a California corporation, as Lessor and Quality Systems, Inc. a California corporation, as Lessee for the Premises located at 1701 E. Edinger Avenue, Bldg. E, Units 5 - 8, Santa Ana, California.

=====

I. INTRODUCTION

The intent of this sign criteria is to establish and maintain guidelines consistent with the signage policies of the Lessor. Further, the purpose is to assure a standard conformance for the design, size and materials used for Lessee identification.

Overall harmony in design and location of signs is essential to maintain aesthetic quality that benefits both the lessee and the industrial center.

II. GENERAL REQUIREMENTS

- A. Each Lessee must submit a copy of the proposed signage for approval by the Lessor and the City of Santa Ana. Approval or disapproval of sign submittals based on aesthetics of design shall remain the sole right of Lessor.
- B. Lessee shall pay for all signs and their installation and maintenance.
- C. Lessees (or responsible representative) shall secure all necessary City of Santa Ana sign permits and variances prior to fabrication and installation of signage.
- D. Signs installed without written approval of the Lessor may be subject to removal and property reinstallation of Lessee's cost. Damages may be assessed to cover cost of repairs to sign fascia or removal of signage resulting from unapproved installations.
- E. All exposed metal shall be primed and painted.
- F. All penetrations of the building structure required for the sign installation shall be neatly sealed in a watertight condition.

III. GENERAL SPECIFICATIONS

- A. Lessee's sign contractor shall have C-45 license and be insured with a total aggregate \$1,000,000.
- B. No audible, flashing or animated signs will be permitted.
- C. No projection above or below the sign will be permitted. Sign must be within dimensional letter limits as indicated in this sign program.
- D. Lessee shall be fully responsible for the operations of the Lessee's sign contractor.
- E. Lessee's sign contractor shall repair any damage caused by installation.

IV. BUILDING SIGNAGE WALL SPECIFICATIONS

A. MATERIALS

- 1. Lessee signs shall be aluminum frame construction.
- 2. 1/8 inch Cyro acrylite plexiglass back with computer generated vinyl graphics.
- 3. Frame paint shall be acrylic poly urethane; Vista color - Cypress Blue #644A-1.

B. SIGN SIZE

- 1. BUILDINGS "C" AND "D":  
24" high by 120" wide by 2" deep non illuminated can sign.
- 2. BUILDINGS "A, B, E, F, G, H, I, & J":  
18" high by 96" wide by 2" deep non illuminated can sign.

C. SIGN AND LETTER COLORS

- 1. Color of sign face is Cyro #7328 white acrylite plexiglass.
- 2. Letter color is #5 blue Arlon vinyl.
- 3. Lessees with established trade logo styles may use a maximum of three (3) colors for lettering.

D. LOGOS

Logos will be considered on a case-by-case basis, at the discretion of the Lessor. Logos are to match company letterhead.

E. LETTER STYLE \*\*

Lessee shall have their choice of letter style from the following fonts:

1. Fritz Quardrata
2. Helvetica
3. Palatino

\*\* Lessees with established trade logo styles may use their standard font(s).

F. LETTER SIZE

1. Maximum letter and/or logo height is 18".
2. Minimum letter and/or logo height is 1".
3. Two lines of copy per sign insert only.
4. Copy area shall not exceed 17" x 108" of plexiglass insert for buildings "C & D".
5. Copy area shall not exceed 12" x 86" of plexiglass insert for buildings "A, B, E, F, G, H, I, J".

V. CONSTRUCTION REQUIREMENTS

- A. Sign fastenings and clips are to be concealed.
- B. Design, layout, and materials for Lessee's sign shall conform in all respects with the sign design drawings included with this criteria. The maximum height for letters in the body of this sign shall be as indicated in this sign criteria.
- C. All penetrations of the building structure required for sign installation shall be sealed in a watertight condition and shall be patched to match adjacent finish.
- D. The interior of the letters shall be painted soft white.
- E. Exposed lamps or tubing will not be permitted.
- F. Raceways, crossovers, conductors, transformers and other equipment shall be concealed.
- G. All signs shall be affixed to the awnings/mansards above the suite entrance.

VI. MAINTENANCE

- A. Lessee shall maintain the sign in good order and repair to include replacement of damaged letters or inserts at Lessee's sole cost and expense. In the event Lessor notifies Lessee of an existing defect and Lessee fails to cure said effect within the (10) days of notification, Lessor may cause the defect to be repaired. Lessee hereby agrees to reimburse Lessor for the cost of said repair within five (5) days after receipt of an invoice setting forth the costs incurred therewith.
- B. Upon termination or expiration of this lease, at Lessor's sole discretion, Lessee hereby agrees to remove the sign insert at Lessee's sole cost and expense.

VII. MISCELLANEOUS REQUIREMENTS

- A. Each occupant will be permitted temporary window advertising not to exceed 25 percent of window area. Business information will be allowed not to exceed two (2) inches height, indicating hours of business, emergency telephone number and similar information.
- B. It shall be unlawful for any person to exhibit, post or display, cause to be exhibited, posted or displayed upon any sign, anything of an obscene, indecent, or immoral nature or unlawful activity.
- C. Signs on or affixed to trucks, automobiles, trailers, or their wide vehicles which advertise, identify, or provide direction to a use or activity not related to its lawful making of deliveries of sales or merchandise or rendering of service from such vehicles, is prohibited.
- D. All paper signs, banners, balloons, streamers, placards, pennants, or portable signs which direct, promote, attract, service, or which are otherwise designed to attract attention are prohibited.

VIII. EXCEPTIONS

Exceptions to the above may be submitted for review to the Lessor and the City of Santa Ana. Before submitted to the City, all changes must be approved by the Lessor and project architect.

Initials: [ILLEGIBLE]



AMENDMENT TO LEASE NO. 1

February 22, 2001

This Amendment to Lease No. 1 is executed as of February 22, 2001 between ORANGEWOOD BUSINESS CENTER, INC., a California corporation ("Lessor") and QUALITY SYSTEMS, INC., a California corporation ("Lessee") for the premises located at 1701 E. Edinger Avenue, Building E, Units 5 - 8, Santa Ana, California ("Premises").

RECITALS:

WHEREAS Lessor and Lessee being parties to the certain Lease dated April 3, 2000 ("Lessee") as amended hereby express their mutual desire and intent to amend said Lease as follows:

TERMS:

In consideration of the mutual agreements contained herein, the parties agree as follows:

1.3 TERM:

The Lease is hereby extended for a period of one (1) year commencing on April 1, 2001 and expiring March 31, 2002.

1.5 BASE RENT:

The Base Rent during this extended period shall be \$9,918.00 per month, all exclusive of Operating Expenses, Real Property Taxes, Insurance and any other items of Additional Rent which may be due from Lessee under the Lease.

EXCEPT as herein modified and amended, the Lease and all its terms, conditions, covenants, restrictions and agreements hereof shall remain in full force and effect.

WHEREAS the parties hereto have executed this Lease Amendment No. 1 as of the date and year first written above.

LESSOR:  
ORANGEWOOD BUSINESS CENTER, INC.  
a California corporation

LESSEE:  
QUALITY SYSTEMS, INC.  
a California corporation

By: /s/ Mark R. Poochigian  
-----  
Mark R. Poochigian  
Its President

By: /s/ Gregory S. Flynn  
-----  
Gregory S. Flynn  
Its Executive Vice President

By: /s/ Diane Whitt  
-----  
Diane Whitt  
Its Vice President

Initials: [ILLEGIBLE]

DA Management, Inc.

A CB Richard Ellis Company

June 22, 2000

Ms. Ola Hudspath  
Quality Systems, Inc.  
1701 East Edinger Avenue  
Building E, Unit 5  
Santa Ana, CA 92705

RE: New Rental Remittance Address

Dear Ms. Hudspath:

Please be advised that the corporate office for DA Management, Inc. has moved. The new remittance address for all rental payments for the above referenced suite is:

Orangewood Business Center, Inc.  
c/o DA Management, Inc.  
5000 Birch Street, Suite 9500  
West Tower  
Newport Beach, CA 92660

For all lease related questions or maintenance issues, please continue to contact the Property Management Division in our Santa Ana, California office at 714/648-0551.

Should you have any questions, please contact me at 714/648-0551 ext. 10.

Sincerely,  
ORANGEWOOD BUSINESS CENTER, INC.

/s/ Sigrid Sailers

Sigrid Sailers  
Property Administrator

CC: KKN, SRP, JCL  
original: RDQ

Property Management Division  
2223 Wellington Avenue, Suite 310  
Santa Ana, CA 92701  
(714) 648-0551  
(714) 648-0668 Fax

Exhibit 10.16  
Lease Agreement between Company and Craig Development Corporation  
dated February 22, 2001.

MEREDITH FINANCIAL CENTRE

17th and Prospect  
Tustin, California

LEASE

THIS LEASE, dated for reference purposes only, is made this 20TH day of FEBRUARY 2001, by and between CRAIG DEVELOPMENT CORPORATION (hereinafter "Landlord") and QUALITY SYSTEMS, INC. (hereinafter "Tenant").

For and in consideration of the rental of the covenants and agreements hereinafter set forth to be kept and performed by the Tenant, Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises herein described for the term, at the rental and subject to and upon all of the terms, covenants and agreements hereinafter set forth.

1. PREMISES

1.1 DESCRIPTION. Landlord hereby leases to Tenant and Tenant hereby rents from Landlord those certain Premises (hereinafter "Premises") crosshatched on Exhibit A containing approximately 14524.85 rentable square feet on the FIRST & SECOND floor of the building commonly known as the CENTRE building, Meredith Financial Centre, City of Tustin, County of Orange, or 17822 EAST 17TH STREET, SUITES 101, 102, 103, 104, 201, 203, 210, 211, & 212, TUSTIN, CA 92780. Hereinafter referred to as the "Building".

14524.85 SQ.FT. approximate Premises rentable area / 171,500.00 SQ. FT.  
approximate Office Building Project rentable area = 8.5% Lessee's Share.

1.2 WORK OF IMPROVEMENTS. The obligation of Landlord and Tenant to perform the work and supply the necessary materials and labor to prepare the Premises for occupancy are set forth in attached Exhibit B. Landlord and Tenant shall expend all funds and do all acts required of them in Exhibit B and shall have the work performed promptly and diligently in a first class workmanlike manner.

2. TERM

2.1 TERM. The term of this Lease shall be for TWELVE (12) months commencing APRIL 1, 2001 and ending on MARCH 31, 2002, unless sooner terminated pursuant to this Lease.

2.2 DELAY IN COMMENCEMENT. Tenant agrees that in the event of the inability of Landlord for any reason to deliver possession of the Premises to Tenant on the commencement date set forth in Section 2.1, Landlord shall not be liable for any damage thereby nor shall such inability affect the validity of this Lease or the obligations of Tenant hereunder, but in such case Tenant shall not be obligated to pay rent or other monetary sums until possession of the Premises is tendered to Tenant; provided that if the delay in delivery of possession exceeds sixty (60) days, then the expiration date of the term of the Lease shall be extended by the period of time computed from the scheduled commencement date to the date possession is tendered. In

the event Landlord shall not have delivered possession of the Premises within six (6) months from the scheduled commencement date, then Tenant at its option, to be exercised within thirty (30) days after the end of said six (6) month period, may terminate this Lease and upon Landlord's return of any monies previously deposited by Tenant, the parties shall have no further rights or liabilities toward each other.

2.3 ACKNOWLEDGMENT OF COMMENCEMENT DATE. In the event the commencement date of the term of the Lease is other than as provided in Section 2.1, then Landlord shall execute a written acknowledgment of the date of commencement and shall attach it to the Lease as Exhibit E.

3. RENT

Tenant shall pay to Landlord as rent for the Premises in advance on the first day of each calendar month of the term of this Lease without deduction, offset, prior notice or demand, in lawful money of the United States, the sum of TWENTY THREE THOUSAND TWO HUNDRED THIRTY NINE DOLLARS AND SEVENTY SIX CENTS (\$23,239.76), or one dollar and SIXTY CENTS (\$1.60) per square foot based on a Premises rentable area of 14524.85 square feet. If the commencement date is not the first day of a month, or if the Lease termination date is not the last day of a month, a prorated monthly installment shall be paid at the then current rate for the fractional month during which the Lease commences and/or terminates.

Months -----	Monthly Rental Rate Per Square Foot -----	Total Monthly Rent -----
1 - 12	\$ 1.60	\$ 23,239.76

Concurrently with Tenant's execution of the Lease, Tenant shall deposit with Landlord the sum of XX (\$X,XXX.XX) as rent for the month(s) of XXXXXXXX 200X.

4. SECURITY DEPOSIT

Concurrently with Tenant's execution of the Lease, Tenant shall deposit with Landlord the sum of XXXXXXXXXXXXXXXXXXXXXXXX (\$X,XXX.XX). Said sum shall be held by Landlord as a Security Deposit for the faithful performance by Tenant of all of the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the term hereof. If Tenant defaults with respect to any provision of this Lease, including but not limited to the provisions relating to the payment of rent and any of the monetary sums due herewith, Landlord may (but shall not be required to) use, apply or retain all or any part of this Security Deposit for the payment of any other amount which Landlord may spend by reason of Tenant's default or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of said Deposit is so used or applied, Tenant shall, within ten (10) days after written demand therefore, deposit cash with Landlord in an amount sufficient to restore the Security Deposit to its original amount; Tenant's failure to do so shall be a material breach of this Lease. Landlord shall not be required to keep this security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security

Deposit or any balance thereof shall be returned to Tenant (or, at Landlord's option, to the last assignee of Tenant's interests hereunder) at the expiration of the Lease term and after Tenant has vacated the Premises. In the event of termination of Landlord's interest in this Lease, Landlord shall transfer said Deposit to Landlord's successor in interest whereupon Tenant agrees to release Landlord from liability for the return of such Deposit or the accounting therefor. SEE SECTION 18.1 SECURITY DEPOSIT RETAINED BY LANDLORD.

#### 5. USE

5.1 USE. The Premises shall be used and occupied by Tenant for general office purposes and for no other purpose without the prior written consent of Landlord.

5.2 SUITABILITY. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty with respect to the Premises or the Building or with respect to the suitability of either for the conduct of Tenant's business, nor has Landlord agreed to undertake any modification, alteration or improvement to the Premises except as provided in this Lease. 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 unless within fifteen (15) days after such date Tenant shall give Landlord written notice specifying in reasonable detail the respects in which the Premises or the Building were not in satisfactory condition.

#### 5.3 USES PROHIBITED.

(a) Tenant 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 or affect any fire or other insurance upon the Building or any of its contents (unless Tenant shall pay any increased premium as a result of such use or acts), or cause a cancellation of any insurance policy covering said Building or any part thereof or any of its contents, nor shall Tenant sell or permit to be kept, used or sold in or about said Premises any articles which may be prohibited by a standard form policy of fire insurance.

(b) Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building or injure or annoy them or use or allow the Premises to be used for any unlawful or objectionable purpose, nor shall Tenant cause, maintain or permit any nuisance in or about the Premises. Tenant shall not commit or suffer to be committed any waste in or about the Premises.

(c) Tenant 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 or requirement of duly constituted public authorities now in force or which may hereafter be enacted or promulgated. Tenant shall at its sole cost and expense promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereafter be in force and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the condition, use or occupancy of the Premises, excluding structural changes not relating to or affecting the condition, use or occupancy of the Premises, or not related or afforded by Tenant's improvements or acts. The judgment of any court

of competent jurisdiction or the admission of Tenant in any action against Tenant, whether Landlord be a party thereof or not, that Tenant violated any law, statute, ordinance or governmental rule, regulation or requirement, shall be conclusive of the fact as between Landlord and Tenant.

## 6. SERVICE AND UTILITIES

6.1 LANDLORD'S OBLIGATION. Landlord agrees to furnish to the Premises during reasonable hours of generally recognized business days, to be determined by Landlord, and subject to the Rules and Regulations of the Building, water, gas and electricity suitable for the intended use of the Premises, heat and air conditioning required in Landlord's judgement for the comfortable use and occupancy of the Premises, ) janitorial and window washing service, and security customary in similar buildings in the competing geographical area. Landlord shall also maintain and keep lighted the common stairs, entries and toilet rooms in the Building.

6.2 TENANT'S OBLIGATION. Tenant shall pay for, prior to delinquency, all telephone and all other materials and services, not expressly required to be paid by Landlord, which may be furnished to or used in, on or about the Premises during the term of this Lease.

### 6.3 TENANT'S ADDITIONAL REQUIREMENTS.

(a) Tenant will not, without the written consent of Landlord, use any apparatus or device in the Premises, using current in excess of 110 volts, which will in any way increase the amount of electricity or water usually furnished or supplied for use of the Premises as general office space; nor connect with electric current, except through existing electrical outlets in the Premises, or water pipes, any apparatus or device, for the purposes of using electric current or water.

(b) If Tenant shall require water or electric current in excess of that usually furnished or supplied for use of the Premises as general office space, Tenant shall first procure the consent of Landlord for the use thereof, which consent Landlord may refuse and Landlord may cause a water meter or electric current meter to be installed in the Premises, so as to measure the amount of water and electric current consumed for any such other use. The cost of such meters and installation, maintenance and repair thereof shall be paid for by Tenant and Tenant agrees to pay Landlord promptly upon demand by Landlord for all such water and electric current consumed as shown by said meters, at the rates charged for such services by the City in which the Building is located or the local public utility, as the case may be, furnishing the same, plus any additional expense incurred in keeping account of the water and electric current so consumed.

(c) Wherever heat generating machines or equipment are used in the Premises which affect the temperature otherwise maintained by the air conditioning system, Landlord reserves the right to install supplementary air conditioning units on the Premises and the cost thereof, including the cost of installation, operation and maintenance thereof, shall be paid by Tenant to Landlord upon demand by Landlord.

6.4 NON-LIABILITY. Landlord shall not be liable for, and Tenant shall not be entitled to, any of the foregoing when such failure is caused by accidents, breakage, repairs, strikes, lockouts or other labor disturbances or labor disputes of any character, or by any other cause similar or dissimilar, beyond the reasonable control of Landlord.

Landlord shall not be liable under any circumstances for loss of or injury to property, however occurring, through or in connection with or incidental to failure to furnish any of the foregoing.

## 7. MAINTENANCE/REPAIRS; ALTERATIONS/ADDITIONS

### 7.1 MAINTENANCE AND REPAIRS.

(a) Landlord's Obligations. Landlord shall maintain in good order, condition and repair the building and all other portions of the premises not the obligation of Tenant or any other tenant in the Building.

#### (b) Tenant's Obligations.

(i) Tenant, at Tenant's sole cost and expense, except for services furnished by Landlord pursuant to Article 6 thereof, shall maintain the Premises in good order, condition and repair including the interior surfaces of the ceilings, walls and floors, all doors, interior windows, exterior windows at or below street level, all plumbing pipes, electrical wiring, switches, fixtures and special items in excess of building standard furnishings, and equipment installed by or at the expense of Tenant. Tenant expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Tenant the right to make repairs at Landlord's expense or to terminate this Lease because of Landlord's failure to keep the Premises in good order, condition and repair.

(ii) Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises in the same condition as received, ordinary wear and tear excepted, and shall promptly remove or cause to be removed at Tenant's expense from the Premises and the Building any signs, notices and displays placed by Tenant.

(iii) Tenant agrees to repair any damage to the Premises or the Building caused by or in connection with the removal of any articles of personal property, business or trade fixtures, machinery, equipment, cabinetwork, furniture, movable partition or permanent improvements or additions, including without limitation thereto, repairing the floor and patching and painting the walls where required by Landlord to Landlord's reasonable satisfaction, all at Tenant's sole cost and expense. Tenant shall indemnify the Landlord against any loss or liability resulting from delay by Tenant in so surrendering the Premises, including without limitation any claims made by any succeeding tenant founded on such delay.

(iv) In the event Tenant fails to maintain the Premises in good order, condition and repair, Landlord shall give Tenant notice to do such acts as are reasonably required to so maintain the Premises. In the event Tenant fails to promptly commence such work and diligently prosecute it to completion, then Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest at ten percent (10% per annum from the date of such work. Landlord shall have no liability to Tenant for any damage, inconvenience or interference with the use of the Premises by Tenant as a result of performing any such work.

(c) Compliance with Law. Landlord and Tenant shall each do all acts required to comply with all applicable laws ordinances, regulations and rules of any public authority relating to their respective maintenance obligations as set forth herein.

## 7.2 ALTERATIONS AND ADDITIONS.

(a) Tenant shall make no alterations, additions or improvements to the Premises or any part thereof without obtaining the prior written consent of Landlord.

(b) Landlord may impose as a condition to the aforesaid consent such requirements as Landlord may deem necessary in its sole discretion, including without limitation thereto, the manner in which the work is done, a right of approval of the contractor by whom the work is to be performed, the times during which it is to be accomplished, and the requirement that upon written consent of Landlord prior to the expiration or earlier termination of the Lease, Tenant will remove any and all permanent improvements or additions to the Premises installed at Tenant's expense and all movable partitions, counters, personal property, equipment, fixtures and furniture.

(c) All such alterations, additions or improvements shall at the expiration or earlier termination of the Lease become the property of Landlord and remain upon and surrendered with the Premises, unless specified pursuant to Section 7.2(b) above.

(d) All articles of personal property and all business and trade fixtures, machinery and equipment, cabinetwork, furniture and movable partitions owned by Tenant or installed by Tenant at its expense in the Premises shall be and remain the property of Tenant and may be removed by Tenant at any time during the Lease term when Tenant is not in default hereunder.

## 8. ENTRY BY LANDLORD

Landlord reserves and shall at any and all times have the right to enter the Premises to inspect the same, to supply janitor service and any other service to be provided by Landlord to Tenant hereunder, to submit said Premises to prospective purchasers or tenants, to post notices of non-responsibility and "for lease" signs, and to alter, improve or repair the Premises and any portion of the Building without abatement of rent, and may for that purpose erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, always providing the entrance to the Premises shall not be blocked thereby, and further providing that the business of Tenant shall not be interfered with unreasonably. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults and safes, and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency, in order to obtain entry to the Premises, and any entry to the Premises obtained by Landlord by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant from the Premises, or any portion thereof.

## 9. LIENS

Tenant shall keep the Premises and any building of which the Premises are a part free from any liens arising out of work performed, materials furnished, or obligations incurred by Tenant and shall indemnify, hold harmless and defend Landlord from any liens and encumbrances arising out of any work performed or materials furnished by or at the direction



of Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but no obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith including attorney's fees and costs shall be payable to Landlord by Tenant on demand with interest at the rate of ten percent (10%) per annum. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law, or which Landlord shall deem proper, for the protection of Landlord and the Premises, and any other party having an interest therein, from mechanics' and materialmen's liens, and Tenant shall give to Landlord at least ten (10) days prior written notice of the expected date of commencement of any work relating to alterations or additions to the Premises.

10. INDEMNITY

10.1 INDEMNITY. Tenant shall indemnify and hold Landlord harmless from and defend Landlord against any and all claims of liability for any injury or damage to any person or property whatsoever; (1) occurring in, on or about the Premises or any part thereof; and (2) occurring in, on or about any facilities (including, without prejudice to the generality of the term "facilities", elevators, stairways, passageways, hallways, and parking areas), the use of which Tenant may have in conjunction with other tenants of the Building, when such injury or damage is caused in part or in whole by the act, neglect, fault or omission of any duty with respect to the same by Tenant, its agents, contractors, employees or invitees. Tenant shall further indemnify and hold Landlord harmless from and against any and all claims 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 from any act or negligence of Tenant, or any of its agents, contractors, 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 thereof. 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, provided, however, that Tenant shall not be liable for damage or injury occasioned by the negligence or intentional acts of Landlord and its designated agents or employees unless covered by insurance Tenant is required to provide.

Tenant, as a material part of the consideration to Landlord, hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause and Tenant hereby waives all claims in respect thereof against Landlord.

10.2 EXEMPTION OF LANDLORD FROM LIABILITY. Landlord shall not be liable for injury or damage which may be sustained by the person, goods, wares, merchandise or property of Tenant, its employees, invitees or customers, or any other person in or about the Premises caused by or resulting from fire, steam, electricity, gas, water or rain, which may leak or flow from or into any part of the Premises, or from the breakage, leakage, obstruction or other defects of the pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting

fixtures of the same, whether the damage or injury results from conditions arising upon the Premises or upon other portions of the Building of which the Premises are a part, or from other sources. Landlord shall not be liable for any damages arising from any act or neglect of any other tenant of the Building.

## 11. INSURANCE

11.1 COVERAGE. Tenant shall, at all times during the term of Lease, and at its own cost and expense procure and continue in force the following insurance coverage:

(a) Bodily Injury and Property Damage Liability insurance with a combined single limit for bodily injury and property damage of not less than \$500,000.

(b) Fire and Extended Coverage Insurance, including vandalism and malicious mischief coverage, in an amount equal to the full replacement value of all fixtures, furniture and improvements installed by or at the expense of Tenant and or Landlord.

11.2 INSURANCE POLICIES. The aforementioned minimum limits of policies shall in no event limit the liability of Tenant hereunder. The aforesaid insurance shall name Landlord as an additional insured. Said insurance shall be with companies having a rating of not less than B in "Best's Insurance Guide". Tenant shall furnish from the insurance companies or cause the insurance companies to furnish certificates of coverage. No such policy shall be cancelable or subject to reduction of coverage or other modification or cancellation except after thirty (30) days prior written notice to Landlord by the insurer. All such policies shall be written as primary policies, not contributing with and not in excess of the coverage which Landlord may carry. Tenant shall, at least twenty (20) days prior to the expiration of such policies, furnish Landlord with renewals or binders. Tenant agrees that if Tenant does not take out and maintain such insurance, Landlord may (but shall not be required to) procure said insurance on Tenant's behalf and charge Tenant the premiums together with a twenty-five percent (25%) handling charge, payable upon demand. Tenant shall have the right to provide such insurance coverage pursuant to blanket policies obtained by Tenant provided such blanket policies expressly afford coverage to the Premises and to Tenant as required by this Lease.

11.3 WAIVER OF SUBROGATION. Landlord and Tenant each hereby waive any and all rights of recovery against the other or against the officers, employees, agents and representatives of the other, on account of loss or damage occasioned to such extent that such loss or damage is insured against under any fire and extended coverage insurance policy which either may have in force at the time of such loss or damage. Tenant shall, upon obtaining the policies of insurance required under this Lease, give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

## 12. DAMAGE OR DESTRUCTION

12.1 PARTIAL DAMAGE -- INSURED. In the event the Premises or the Building are damaged by any casualty which is covered under fire and extended coverage insurance carried by Landlord, then Landlord shall restore such damage provided insurance proceeds are available to pay eighty percent (80%) or more of the cost of restoration and provided

such restoration can be completed within sixty (60) days after the commencement of the work in the opinion of a registered architect or engineer appointed by Landlord. In such event this Lease shall continue in full force and effect, except that Tenant shall be entitled to proportionate reduction of rent while such restoration takes place, such proportionate reduction to be based upon the extent to which the restoration efforts interfere with Tenant's business in the Premises.

12.2 PARTIAL DAMAGE -- UNINSURED. In the event the Premises or the Building are damaged by a risk not covered by Landlord's insurance or the proceeds of available insurance are less than eighty percent (80%) of the cost of restoration, or if the restoration cannot be completed within sixty (60) days after the commencement of work in the opinion of the registered architect or engineer appointed by Landlord, then Landlord shall have the option either to (1) repair or restore such damage, this Lease continuing in full force and effect, but the rent to be proportionately abated as hereinabove provided, or (2) give notice to Tenant at any time within thirty (30) days after such damage terminating this Lease as of a date to be specified in such notice, which date shall be not less than thirty (30) nor more than sixty (60) days after giving such notice. In the event of the giving of such notice, this Lease shall expire and all interest of Tenant in the Premises shall terminate on such date so specified in such notice and the rent, reduced by any proportionate reduction based upon the extent, if any to which said damage interfered with the use and occupancy of Tenant, shall be paid to the date of such termination; Landlord agrees to refund to the Tenant any rent theretofore paid in advance for any period of time subsequent to such date.

12.3 TOTAL DESTRUCTION. In the event the Premises are totally destroyed or the Premises cannot be restored as required herein under applicable laws and regulations, notwithstanding the availability of insurance proceeds, this Lease shall be terminated effective the date of the damage.

12.4 DAMAGE NEAR END OF THE TERM. Notwithstanding anything to the contrary contained in this Article 12, Landlord shall not have any obligation whatsoever to repair, reconstruct or restore the Premises when the damage resulting from any casualty covered under this Article 12 occurs during the last twelve (12) months of the term of this Lease or any extension thereof.

12.5 LANDLORD'S OBLIGATIONS. The Landlord shall not be required to repair any injury or damage by fire or other cause, or to make any restoration or replacement of any panelings, decorations, partitions, railings, floor covering, office fixtures or any other improvements or property installed in the Premises by Tenant or at the direct or indirect expense of Tenant. Tenant shall be required to restore or replace same in the event of damage. Except for abatement of rent, if any, Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration; nor shall Tenant have the right to terminate this Lease as the result of any statutory provision now or hereafter in effect pertaining to the damage and destruction of the Premises or the Building, except as expressly provided herein.

### 13. CONDEMNATION

If all or any part of the Premises shall be taken or appropriated for public or quasi-public use by right of eminent domain with or without litigation or transferred by agreement in connection with such public or quasi-public use, either party hereto shall have the right at its option exercisable within thirty (30) days of receipt of notice of such taking to terminate this Lease as of the date possession is taken by the condemning authority, provided, however, that before Tenant may terminate this Lease by reason of taking or appropriation as provided hereinabove, such taking or appropriation shall be of such an extent and nature as to substantially handicap, impede or impair Tenant's use of the Premises. If any part of the Building other than the Premises shall be so taken or appropriated, Landlord shall have the right at its option to terminate this Lease. No award for any partial or entire taking shall be apportioned, and Tenant hereby assigns to Landlord any award which may be made in such taking or condemnation, together with any and all rights of Tenant now or hereafter arising in or to the same or any part thereof; provided, however, that nothing contained herein shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award made to Tenant for the taking of personal property and fixtures belonging to Tenant and/or for the interruption of or damage to Tenant's business and/or for Tenant's unamortized cost of leasehold improvements. In the event of a partial taking which does not result in a termination of this Lease, rent shall be abated in the proportion which the part of the Premises so made unusable bears to the rented area of the Premises immediately prior to the taking. No temporary taking of the Premises and/or of Tenant's rights therein or under this Lease shall terminate this Lease or give Tenant any right to any abatement of rent thereunder; any award made to Tenant by reason of any such temporary taking shall belong entirely to Tenant and Landlord shall not be entitled to share therein.

### 14. ASSIGNMENT AND SUBLETTING

14.1 LANDLORD'S CONSENT REQUIRED. Tenant shall not assign, transfer, mortgage, pledge, hypothecate or encumber this Lease or any interest therein, and shall not sublet the Premises or any part thereof, without the prior written consent of Landlord and any attempt to do so without such consent being first had and obtained shall be wholly void and shall constitute a breach of this Lease.

14.2 REASONABLE CONSENT. If Tenant complies with the following conditions, Landlord shall not unreasonably withhold its consent to the subletting of the Premises or any portion thereof or the assignment of this Lease. Tenant shall submit in writing to Landlord (a) the name and legal composition of the proposed subtenant or assignee; (b) the nature of the business proposed to be carried on in the Premises; (c) the terms and provisions of the proposed sublease; (d) such reasonable financial information as Landlord may request concerning the proposed subtenant or assignee, and (e) certificates of insurance coverage as stated in Article 11.

14.3 NO RELEASE OF TENANT. No consent by Landlord to any assignment or subletting by Tenant shall relieve Tenant of any obligation to be performed by Tenant under this Lease, whether occurring before or after such consent, assignment or subletting. The consent by Landlord to any assignment or subletting shall not relieve Tenant from the obligation to obtain Landlord's express written consent to any other assignment or subletting. The acceptance of rent by

Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any assignment, subletting or other transfer. Consent to one assignment, subletting or other transfer shall not be deemed to constitute consent to any subsequent assignment, subletting or other transfer.

14.4 ATTORNEY'S FEES. In the event Landlord shall consent to a sublease or assignment under this Section 14, Tenant shall reimburse Landlord for Landlord's reasonable costs and attorneys' fees incurred in connection with the processing and documentation of any requested transfer. In addition, Tenant shall pay a transfer fee of five hundred dollars (\$500.00) in the event the transfer is approved.

#### 15. SUBORDINATION

15.1 SUBORDINATION. This Lease at Landlord's option shall be subject and subordinate to all ground or underlying leases which now exist or may hereafter be executed affecting the Premises or the land upon which the Premises are 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 or improvements or either thereof, of which the Premises are a part, or on or against Landlord's interest or estate therein, 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. If any mortgagee, trustee or ground lessor shall elect to have this Lease prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease is dated prior or subsequent to the date of said mortgage, deed of trust, or ground lease or the date of the recording thereof.

15.2 SUBORDINATION AGREEMENTS. Tenant covenants and agrees to execute and deliver upon demand without charge therefore, such further instruments evidencing such subordination of this Lease to such ground or underlying leases and to the lien of any such mortgages or deeds of trust as may be required by Landlord. Tenant hereby appoints Landlord as Tenant's attorney-in-fact, irrevocably, to execute and deliver any such agreements, instruments, releases or other documents.

15.3 QUIET ENJOYMENT. Landlord covenants and agrees with Tenant that upon Tenant paying rent and other monetary sums due under the Lease, performing its covenants and conditions under the Lease and upon recognizing purchaser as Landlord pursuant hereto, Tenant shall and may peaceably and quietly have, hold and enjoy the Premises for the term, subject, however, to the terms of the Lease and of any of the aforesaid ground leases, mortgages or deeds of trust described above.

15.4 ATTORMENT. In the event any proceedings are brought for default under ground or any underlying lease or in the event of foreclosure or the exercise of the power of sale under any mortgage or deed of trust made by the Landlord covering the Premises, the Tenant shall attorn to the purchaser upon any such foreclosure or sale and recognize such purchaser as the Landlord under this Lease, provided said purchaser expressly agrees in writing to be bound by the terms of the Lease.

16. DEFAULT; REMEDIES

16.1 DEFAULT. The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(a) Any failure by Tenant to pay the rent or any other monetary sums required to be paid hereunder (where such failure continues for five (5) days after written notice by Landlord to Tenant);

(b) The abandonment or vacation of the Premises by Tenant;

(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 twenty (20) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of the default is such that the same cannot reasonably be cured within said twenty (20) 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 or general arrangement 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 sixty (60) days); the appointment of a trustee or receiver to take 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; or 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.

16.2 REMEDIES. In the event of any such material default or breach by Tenant, Landlord may, at any time thereafter without limiting Landlord in the exercise of any right or remedy at law or in equity which Landlord may have by reason of such default or breach:

(a) Maintain this Lease in full force and effect and recover that rent and other monetary charges as they become due, without terminating Tenant's right to possession irrespective of whether Tenant shall have abandoned the Premises. In the event Landlord elects not to terminate the Lease, Landlord shall have the right to attempt to re-let the Premises as Landlord deems reasonable and necessary without being deemed to have elected to terminate the Lease, including removal of all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. In the event any such re-letting occurs, this Lease shall terminate automatically upon the new Tenant taking possession of the Premises. Notwithstanding that Landlord fails to elect to terminate the Lease initially, Landlord at any time WHILE SUCH DEFAULT REMAINS UNCURED XXXXXX XXX XXXX XX XXXX XXXXX may elect to terminate this Lease by virtue of such XXXXXXXX default of Tenant.

(b) Terminate Tenant's right to possession by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including without limitation thereto, the following: (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 that is

proved 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 is proved 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 events would be likely to result therefrom; plus (v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable State law. Upon any such re-entry Landlord shall have the right to make any reasonable repairs, alterations or modifications to the Premises, which Landlord in its sole discretion deems reasonable and necessary. As used in (i) above, the "worth at the time of award" is computed by allowing interest at the rate of ten percent (10%) per annum from the date of default. As used in (ii) and (iii) the "worth at the time of award" is computed by discounting such amount at the discount rate of the U.S. Federal Reserve Bank at the time of award plus one percent (1%). The term "rent", as pursuant to Article 16, shall be deemed to be and to mean the rent to be paid pursuant to Article 3 and all other monetary sums required to be paid by Tenant pursuant to the terms of this Lease.

(c) Landlord shall be entitled to recover from Tenant any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result from Tenant's default including, but not limited to, the cost of recovering possession of the Premises, expenses of reletting, including necessary repair, renovation and alteration of the Premises, the unamortized portion of any tenant improvements and brokerage commissions funded by Landlord, reasonable attorneys' fees and court costs, and any other reasonable costs.

16.3 LATE CHARGES. Tenant hereby acknowledges that late payment by Tenant to Landlord of rent and other sums due hereunder will cause Landlord 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 Landlord by the terms of any mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Tenant shall not be received by Landlord or Landlord's designee within ten (10) days after such amount shall be due, Tenant shall pay to Landlord a late charge equal to ten percent (10%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of late payment by Tenant. Acceptance of such late charge by Landlord shall in no event constitute a waiver of Tenant's default with respect to such overdue amount nor prevent Landlord from exercising any of the other rights and remedies granted hereunder.

16.4 DEFAULT BY LANDLORD. Landlord shall not be in default unless Landlord fails to perform obligations required of Landlord within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord 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 Tenant in writing, specifying wherein Landlord has failed to perform such obligations; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then

Landlord shall not be in default if Landlord commences performance within such thirty-day period and thereafter diligently prosecutes the same to completion. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default and Tenant's remedies shall be limited to damages and/or an injunction.

## 17. MISCELLANEOUS

### 17.1 ESTOPPEL CERTIFICATE

(a) Tenant shall at any 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 date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser to encumbrancer of the Premises.

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

(c) If Landlord desired to finance or refinance the Building, or any part thereof, Tenant hereby agrees to deliver to any lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender. Such statements shall include the past three years' financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

17.2 TRANSFER OF LANDLORD'S INTEREST. In the event of a sale or conveyance by Landlord of Landlord's interest in the Premises or the Building other than a transfer for security purposes only, Landlord shall be relieved from and after the date specified in any such notice of transfer of all obligations and liabilities accruing thereafter on the part of Landlord, provided that any funds in the hands of Landlord at the time of transfer in which Tenant has an interest, shall be delivered to the successor of Landlord. This Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee provided all Landlord's obligations hereunder are assumed in writing by the transferee.

### 17.3 CAPTIONS; ATTACHMENTS; DEFINED TERMS

(a) The captions of the paragraphs of this Lease are for convenience only and shall not be deemed to be relevant in resolving any question of interpretation or construction of any section of this Lease.

(b) Exhibits attached hereto, and addenda and schedules initialed by the parties, are deemed by attachment to constitute part of this Lease and are incorporated herein.

(c) The words "Landlord" and "Tenant" as used herein, shall include the plural as well as the singular. Words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there be more than one Landlord or Tenant, the obligations hereunder imposed upon Landlord or Tenant



shall be joint and several; as to a Tenant which consists of husband and wife, the obligations shall extend individually to their sole and separate property as well as community property. The term "Landlord" shall mean only the owner or owners at the time in question of the fee title or a tenant's interest in a ground lease of the land underlying the Building. The obligations contained in this Lease to be performed by Landlord shall be binding on Landlord's successors and assignees only during their respective periods of ownership.

17.4 ENTIRE AGREEMENT. This instrument along with any exhibits and attachments hereto constitutes the entire agreement between Landlord and Tenant relative to the Premises and this agreement and the exhibits and attachments may be altered, amended, or revoked only by an instrument in writing signed by both Landlord and Tenant. Landlord and Tenant agree hereby that all prior or contemporaneous oral agreements between and among themselves and their agents or representatives relative to the leasing of the Premises are merged in or revoked by this Agreement.

17.5 SEVERABILITY. If any term or provision of this Lease shall, to any extent, be determined by a court of competent jurisdiction to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforceable to the fullest extent permitted by Law.

#### 17.6 COSTS OF SUIT

(a) If Tenant or Landlord shall bring any action for any relief against the other, declaratory or otherwise, arising out of this Lease, including any suit by Landlord for the recovery of rent or possession of the Premises, the prevailing party shall be entitled to recover as a part of the action its reasonable attorneys' fees, and all other costs whether or not the action is prosecuted to Judgement.

(b) Should Landlord, without fault on Landlord's part, be made a party to any litigation instituted by Tenant or by any third party against Tenant, or by or against any person holding under or using the Premises by license of Tenant, or for the foreclosure of any lien for labor or material furnished to or for Tenant or any such other person or otherwise arising out of or resulting from any act or transaction of Tenant or of any such other person, Tenant covenants to save and hold Landlord harmless from any judgment rendered against Landlord or the Premises or any part thereof, and all costs and expenses, including reasonable attorneys' fees, incurred by Landlord in or in connection with such litigation.

17.7 TIME; JOINT AND SEVERAL LIABILITY. Time is of the essence of this Lease and each and every provision hereof, except as to the conditions relating to the delivery of possession of the Premises to Tenant. All the terms, covenants and conditions contained in the Lease to be performed by either party, if such party shall consist of more than one person or organization, shall be deemed to be joint and several, and all rights and remedies of the parties shall be cumulative and nonexclusive of any other remedy at law or in equity.

17.8 BINDING EFFECT; CHOICE OF LAW. The parties hereto agree that all provisions hereof are to be construed as both covenants and conditions as though the words importing such covenants and conditions were used in each separate paragraph hereof. Subject to any provisions hereof restricting assignment or subletting by Tenant and subject to Section 17.2, all of the provisions hereof shall bind and inure to the

benefit of the parties hereto and their respective heirs, legal representatives, successors and assignees. This Lease shall be governed by the laws of the State of California.

17.9 WAIVER. No covenant, term or condition or the breach thereof shall be deemed waived, except by written consent of the party against whom the waiver is claimed, and any waiver or the breach of any covenant, term or condition shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, term or condition. Acceptance by Landlord of any performance by Tenant after the time the same shall have become due shall not constitute a waiver by Landlord of the breach or default of any covenant, term or condition unless otherwise expressly agreed to by Landlord in writing.

17.10 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, terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of any or all such subleases or subtenancies.

17.11 HOLDING OVER. If Tenant remains in possession of all or any part of the Premises after the expiration of the term hereof, with or without the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and not a renewal hereof or an extension for any further term, and in such case, rent and other monetary sums due hereunder shall be payable in the amount equal to one hundred fifty percent (150%) of the rent in effect upon the date of such expiration and at the time specified in this Lease. Such month-to-month tenancy shall be subject to every other term, covenant and agreement contained herein.

#### 17.12 SIGNS

(a) Tenant shall not place or permit to be placed in or upon the Premises, where visible from outside the Premises, or outside the Premises or any part of the Building any signs, notices, drapes, shutters, blinds or displays of any type without the prior written consent of Landlord.

(b) Landlord reserves the right in Landlord's sole discretion to place and locate on the roof, exterior of the Building, and in any area of the Building not leased to Tenant such signs, notices, displays and similar items as Landlord deems appropriate in the proper operation of the Building.

17.13 REASONABLE CONSENT. Except as limited elsewhere in this Lease, wherever in this Lease Landlord or Tenant is required to give its consent or approval to any action on the part of the other, such consent or approval shall not be unreasonably withheld. In the event of failure to give any such consent, the other party shall be entitled to specific performance at law and shall have such other remedies as are reserved to it under this Lease, but in no event shall Landlord or Tenant be responsible in monetary damages for failure to give consent unless said consent is withheld maliciously or in bad faith.

17.14 INTEREST ON PAST DUE OBLIGATIONS. Except as expressly provided, any amount due to Landlord not paid when due shall bear interest at ten percent (10%) per annum from the due date. Payment of such interest shall not excuse or cure any default by Tenant under this Lease.

17.15 RULES AND REGULATIONS; PARKING. Tenant and Tenant's agents, servants, employees, visitors and licensees shall observe and comply fully and faithfully with all reasonable and discriminatory rules and regulations adopted by Landlord for the care, protection, cleanliness and operation of the Building and its Tenants including those annexed to this Lease as Exhibit C and any modification or addition thereto adopted by Landlord, provided Landlord shall give written notice thereof to Tenant. Landlord shall not be responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any of said rules and regulations.

17.16 NOTICES. All Notices or demands of any kind required or desired to be given by Landlord or Tenant hereunder shall be in writing and shall be deemed delivered forty-eight (48) hours after depositing the notice or demand in the United States mail, certified or registered, postage prepaid, addressed to the Landlord or Tenant respectively at the address set forth after their signatures at the end of this Lease.

17.17 BROKER'S COMMISSION. The parties recognize XXXXXXXXXXXX as the broker(s) who negotiated this Lease, representing the firm of XXXXXXXXXXXXXXXX and agree that the party designated here -- QUALITY SYSTEMS, INC. -- shall be solely responsible for the payment of brokerage commissions to those broker(s), and that the other party shall have no responsibility for the commissions unless otherwise provided in this Lease. Tenant warrants that it has no dealings with any other real estate broker or agent in connection with the negotiation of this Lease, and Tenant agrees to indemnify and hold Landlord harmless from any cost, expense or liability (including reasonable attorneys' fees) for any compensation, commissions or charges claimed by any other real estate broker or agent employed or claiming to represent or to have been employed by Tenant in connection with the negotiation of this Lease. The foregoing agreement shall survive the termination of this Lease. If Tenant fails to take possession of the premises or if this Lease otherwise terminates prior to the expiration date, Landlord shall be entitled to recover from Tenant the unamortized portion of any brokerage commission funded by Landlord in addition to any other damages which Landlord may be entitled.

17.18 CORPORATE AUTHORITY. If Tenant is a corporation, each individual executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors of said corporation or in accordance with the By-laws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms.

If Tenant is a corporation Tenant shall, within thirty (30) days after execution of this Lease, deliver to Landlord a certified copy of a resolution of the Board of Directors of said corporation authorizing or ratifying the execution of this Lease.

18. OPERATING EXPENSE INCREASE.

Lessee shall pay to Lessor during the term hereof, in addition to the Rent, Lessee's Share, as hereinafter defined, of the amount by which all Operating Expenses, as hereinafter defined, for each Comparison Year exceeds the amount of all Operating Expenses for the

Base Year, such excess being hereinafter referred to as the "Operating Expense Increase," in accordance with the following provisions:

(a) "Lessee's Share" is defined, for purposes of this Lease, as the percentage set forth in paragraph 1.1 of this Lease, which percentage has been determined by dividing the approximate square footage of the Premises by the total approximate square footage of the rentable area contained in the Office Building Project. It is understood and agreed that the square footage figures set forth in the Lease are approximations which Lessor and Lessee agree are reasonable and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the area available for lease in the Office Building Project.

(b) "Base Year" is defined as the calendar year in which the Lease term commences.

(c) "Comparison Year" is defined as each calendar year during the term of this Lease subsequent to the Base Year; provided, however, Lessee shall have no obligation to pay a share of the Operating Expense Increase applicable to the first twelve (12) months of the Lease Term (other than such as are mandated by a governmental authority, as to which government mandated expenses Lessee shall pay Lessee's Share, notwithstanding they occur during the first twelve (12) months). Lessee's Share of the Operating Expense Increase for the first and Last Comparison Years of the Lease Term shall be prorated according to that portion of such Comparison Year as to which Lessee is responsible for a share of such increase.

(d) "Operating Expenses" is defined, for purposes of this Lease, to include all costs, if any, incurred by Lessor in the exercise of its reasonable discretion, for:

(i) The operation, repair, maintenance, and replacement, in neat, clean, safe, good order and condition, of the Office Building Project, including but not limited to, the following:

(aa) The Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates;

(bb) All heating, air conditioning, plumbing, electrical systems, life safety equipment, telecommunication and other equipment used in common by, or for the benefit of, lessees or occupants of the Office Building Project, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair.

(ii) Trash disposal, janitorial and security services;

(iii) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense";

(iv) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor for the Office Building Project;

(v) The amount of the real property taxes to be paid by Lessor for the Office Building Project;

(vi) The cost of water, sewer, gas, electricity, and other publicly mandated services to the Office Building Project;

(vii) Labor, salaries and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Office Building Project and accounting and a management fee attributable to the operation of the Office Building Project;

(viii) Replacing and/or adding improvements mandated by any governmental agency and any repairs or removals necessitated

thereby amortized over its useful life according to Federal income tax regulations or guidelines for depreciation thereof (including interest on the unamortized balance as is then reasonable in the judgement of Lessor's accountants);

(ix) Replacements of equipment or improvements that have a useful life for depreciation purposes according to Federal income tax guidelines of five (5) years or less, as amortized over such life.

(e) Operating Expenses shall not include the costs of replacements of equipment or improvements that have a useful life for Federal income tax purposes in excess of five (5) years unless it is of the type described in Paragraph 18(d)(viii), in which case their cost shall be included as above provided.

(f) Operating Expenses shall not include any expenses paid by any lessee directly to third parties, or as to which Lessor is otherwise reimbursed by any third party, other tenant, or by insurance proceeds.

(g) Lessee's Share of Operating Expense Increase 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 in advance of Lessee's Share of the Operating Expense Increase for any Comparison Year, and the same shall be payable monthly or quarterly, as Lessor shall designate, during each Comparison Year of the Lease term, on the same day as the Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expense Increase as aforesaid, Lessor shall deliver to Lessee within sixty (60) days after the expiration of each Comparison Year a reasonably detailed statement showing Lessee's Share of the actual Operating Expense Increase incurred during such year. If Lessee's payments under this paragraph 18(g) during said Comparison 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 Expense Increase next falling due. If Lessee's payments under this paragraph during said Comparison 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. Lessor and Lessee shall forthwith adjust between them by cash payment any balance determined to exist with respect to that portion of the last Comparison Year for which Lessee is responsible as to Operating Expense Increases, notwithstanding that the Lease term may have terminated before the end of such Comparison Year.

#### 19. ADDITIONAL PROVISIONS

19.1 SECURITY DEPOSIT RETAINED BY LANDLORD. Landlord currently holds Twenty four thousand seven hundred forty six dollars and ninety six cents (\$24,746.96) as Security Deposit from Lease dated August 30, 1989 and the Addenda thereto.

19.2 TENANT'S AIR CONDITIONING UNIT. It is reaffirmed here that pursuant to Lease dated August 12, 1982, the Addendum attached thereto, and item #2 therein, between CRAIG DEVELOPMENT CORPORATION, LANDLORD and QUALITY SYSTEMS, INC., TENANT as follows: " 2. Air conditioner which Tenant installed in C 211 with Landlord's permission is the sole property of the Tenant and shall not become property of the Landlord as referred to in Paragraph 8.2C."

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-20-  
CDCL101

INITIAL  
[ILLEGIBLE]

In Witness Whereof, Landlord and Tenant have executed this Lease the date and year first written.

LANDLORD:  
CRAIG DEVELOPMENT CORPORATION

TENANT:  
QUALITY SYSTEMS, INC.

/s/ Craig Meredith

/s/ Paul Holt

-----  
By: Craig Meredith, President

-----  
By: Paul Holt, Chief Financial Officer

Address:

Address:

-----  
Suite 860  
-----  
1851 East First Street  
-----  
Santa Ana, CA 92705  
-----

-----  
Suite 210  
-----  
17822 East 17th Street  
-----  
Tustin, CA 92780  
-----

(If Landlord or Tenant is a corporation, the corporate seal must be affixed and the authorized officers must sign on behalf of the corporation. The Lease must be executed by the President or a Vice President and the Secretary or Assistant Secretary unless the By-laws or a Resolution of the Board of Directors shall otherwise provide, in which event the By-laws or a certified copy of the Resolution, as the case may be, must be furnished.)

LANDLORD  
CORPORATE  
SEAL

TENANT  
CORPORATE  
SEAL

EXHIBIT A

MEREDITH FINANCIAL CENTRE -- CENTRE BUILDING

17822 East 17th Street, Tustin, CA 92680

[FLOOR PLAN OMITTED]

INITIAL  
[ILLEGIBLE]



EXHIBIT A

MEREDITH FINANCIAL CENTRE -- CENTRE BUILDING

17822 East 17th Street, Tustin, CA 92680

[FLOOR PLAN OMITTED]

INITIAL  
[ILLEGIBLE]

EXHIBIT B

[FLOOR PLAN OMITTED]

CENTRE BUILDING SUITES 101 & 102 WORK OF IMPROVEMENTS: NONE.

3340.00 SQUARE FEET USEABLE.

INITIAL  
[ILLEGIBLE]

EXHIBIT B

CENTRE BUILDING SUITES 103 & 104 WORK OF IMPROVEMENTS: NONE.  
103 = 1745.77 & 104 = 1594.23 SQ. FT. USEABLE

QUALITY SYSTEMS, INC.  
MEREDITH FINANCIAL CENTRE  
CENTRE BLDG--103/104

[FLOOR PLAN OMITTED]

INITIAL  
[ILLEGIBLE]

EXHIBIT B

[FLOOR PLAN OMITTED]

SUITE CENTRE 203 WORK OF IMPROVEMENTS: NONE.  
2164.40 SQUARE FEET USEABLE.

INITIAL  
[ILLEGIBLE]

EXHIBIT B

[FLOOR PLAN OMITTED]

CENTRE BUILDING SUITES  
201, 210, 211, & 212  
WORK OF IMPROVEMENTS:  
NONE.

SUITE 201: 2486.67 SFU  
SUITE 210: 1873.33 SFU  
SUITE 211: ABOVE  
SUITE 212: ABOVE

INITIAL  
[ILLEGIBLE]

EXHIBIT C

RULES AND REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be inserted, displayed or printed or affixed on or to any part of the outside or inside of the Building without the written consent of Landlord first had and obtained and Landlord shall have the right to remove any such sign, placard, picture, advertisement, name or notice without notice to and at the expense of Tenant.

Door sign and directory listing strips will be supplied by Landlord after Tenant has forwarded written request to Landlord for same. Any requests for changes in door sign and directory strips thereafter must be made in writing to Landlord and will be at Tenant's expense.

Landlord shall not place anything or allow anything to be placed near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises.

2. No Tenant shall obtain for use upon the Premises, ice, drinking or bottled water, towel or other similar service or accept barbering or bootblackening services on the Premises, except from persons authorized by the Landlord and at the hours and under regulations fixed by the Landlord.

3. The directory boards of the Building will be provided exclusively for the display of the name and location of Tenant only and Landlord reserves the right to exclude any other names therefrom.

4. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by any of the tenants or used by them for any purpose other than for ingress to and egress from their respective Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and the Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom the Tenants normally deal in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. No tenant and no employees or invitees of any tenant shall go upon the roof of the Building.

5. Tenant shall not alter any lock or install any new or additional locks or any bolts on any door of the Premises without the written consent of Landlord.

6. The toilet rooms, urinals, wash bowls and other apparatus shall not be used for any purpose other than that for which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein and the expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by the Tenant who, or whose employees or invitees shall have caused it.

7. Tenant shall not overload the floor of the Premises or mark, drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof. No boring, cutting or stringing of wires or laying of linoleum or other similar floor coverings shall be permitted except with the prior consent of the Landlord and as the Landlord may direct.

8. No furniture, freight or equipment of any kind shall be brought into the Building without the consent of Landlord and all moving of the same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes, and other heavy equipment brought into the Building. Safes or other heavy objects shall, if considered necessary by Landlord, stand on wood strips of such thickness as is necessary to properly distribute the weight. Landlord will not be responsible for loss of or damage to any such safe or property from any cause and all damage done to the Building by moving or maintaining any such safe or other property shall be repaired at the expense of Tenant. There shall not be used in any space, or in the public halls of the Building, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards.

9. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises unless otherwise agreed to by Landlord. Except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the same. Tenant shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall in no way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage done to the effects of any tenant by the janitor or any other employee or any other person. Janitor service shall include ordinary dusting and cleaning by the janitor assigned to such work and shall not include cleaning of carpets or rugs, except normal vacuuming, or moving of furniture and other special services. Janitor service will not be furnished on nights when rooms are occupied after 9:30 pm. Window cleaning shall be done only by Landlord, and only between 6:00 am and 5:00 pm.

10. Tenant shall not use, keep or permit to be used or kept any noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to the Landlord or other occupants of the Building by reason of noise, odors and /or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Building. No Tenant shall make or permit to be made any unseemly or disturbing noises or disturb or interfere with occupants of this or neighboring Buildings or Premises or those having business with them whether by the use of any musical instrument, radio, phonograph, unusual noise, or in any other way. No Tenant shall throw anything out of doors or down the passageways.

11. The Premises shall not be used for manufacturing or for the storage of merchandise except as such storage may be incidental to the use of the Premises for general office purposes. No Tenant shall

occupy or permit any portion of his Premises to be occupied as an office for a public stenographer or typist, or for the manufacture or sale of liquor, narcotics, or tobacco in any form, or as a medical office, or as a barber shop or manicure shop. No Tenant shall advertise for laborers giving an address at the Premises. The Premises shall not be used for lodging or sleeping or for any illegal purposes.

12. Tenant shall not use or keep in the Premises or the Building any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

13. Landlord will direct electricians as to where and how telephone and computer wiring are to be introduced. No boring or cutting for wires will be allowed without the consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord. Teflon cable is required.

14. All keys to offices, rooms and toilet rooms shall be obtained from Landlord's Building Superintendent and Tenant shall not from any other source duplicate, obtain keys or have keys made. The Tenant, upon termination of the tenancy, shall deliver to the Landlord the keys of the offices, rooms and toilet rooms which shall have been furnished or shall pay the Landlord the cost of replacing same or of changing the lock or locks opened by such lost key if Landlord deems it necessary to make such change.

15. No Tenant shall lay linoleum, tile, carpet or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except as approved by the Landlord. The expense of repairing any damage resulting from a violation of this rule or removal of any floor covering shall be borne by the Tenant by whom, or by whose contractors, employees or invitees, the damage shall have been caused.

16. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by Landlord.

17. On Sundays, legal holidays and on Saturday commencing at 12:00 noon, and on other days between the hours of 7:00 pm and 7:00 am the following day, access to the Building, or to the halls, corridors, elevators or stairways in the Building, or to the Premises may be refused unless the person seeking access is properly identified, and Landlord need not furnish heating and air conditioning at those times, but will make them available upon written request and at an additional charge to Tenant. The Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing the doors or otherwise, for the safety of the tenants and protection of property in the Building and the Building. Landlord reserves the right to close and keep locked all entrance and exit doors of the Building on Sundays, legal holidays, and on Saturdays commencing at 12:00 noon, and on other days between the hours of 7:00 pm and 7:00



am, and during such further hours as Landlord may deem advisable for the adequate protection of said Building and the Property of its Tenants. Tenants will be provided with keys enabling access to Premises at all times.

18. Tenant shall see that the doors of the Premises are closed and securely locked before leaving the Building and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness Tenant shall make good all injuries sustained by other tenants or occupants of the Building or Tenant.

19. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the rules and regulations of the Buildings.

20. The requirements of Tenant will be attended to only upon application at the Building Superintendent's office. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under specific instruction from the Landlord.

21. No vending machine or machines of any description shall be installed, maintained or operated upon the Premises without the written consent of the Landlord.

22. Landlord shall have the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building of which the Premises are a part.

23. Tenant agrees that it shall comply with all fire and security regulations that may be issued from time to time by Landlord and Tenant also shall provide Landlord with the name of designated responsible employee to represent Tenant in all matters pertaining to such fire or security regulations.

24. Landlord reserves the right by written notice to Tenant, to rescind, alter or waive any rule or regulation at any time prescribed for the Building when, in Landlord's judgment, it is necessary, desirable or proper for the best interest of the Building and its tenants.

25. Tenants shall not disturb, solicit, or canvas any occupant of the Building and shall cooperate to prevent same.

26. Without the written consent of Landlord, Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant except as Tenant's address.

27. Parking allocation is 3.8 automobiles per 1000 square feet of leased Premises area (based on 100% occupancy of Meredith Financial Centre), and is on a free, first-come, first-served basis.

28. HVAC: HVAC system in the building is accessible to Tenant during the following periods, with the exception of Legal Holidays:

Monday through Friday: 7am to 7pm.  
Saturday: 7am to 12pm.

After hour costs for HVAC are fifty dollars (\$50.00), subject to change without notice, per hour with 24 hours advance written notice required.

29. LEGAL HOLIDAYS: The following Legal Holidays are recognized:

NEW YEARS DAY  
MEMORIAL DAY  
INDEPENDENCE DAY  
LABOR DAY  
THANKSGIVING DAY  
CHRISTMAS DAY

QUALITY SYSTEMS, INC.  
LIST OF SUBSIDIARIES

1. Clinitec International, Inc., a California corporation, d/b/a MicroMed Healthcare Information Systems, Inc., is a wholly-owned subsidiary of Quality Systems, Inc.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 2-82773, 33-31949, 333-63131 and 333-67115 on Form S-8 of our report dated May 22, 2001, appearing in this Annual Report on Form 10-K for Quality Systems, Inc. for the year ended March 31, 2001.

DELOITTE & TOUCHE LLP  
Costa Mesa, California  
June 26, 2001