

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **ADVENT SOFTWARE INC /DE/**

CIK: **1002225** | IRS No.: **942901952** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
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SIC: **7371** Computer programming services

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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 December 31, 1998

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-26994

ADVENT SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State of incorporation)

94-2901952  
(IRS Employer Identification Number)

301 Brannan Street, San Francisco, California 94107  
(Address of principal executive offices and zip code)

(415) 543-7696  
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.01 par value  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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.

The number of shares of the registrant's Common Stock outstanding as of March 17, 1999 was 8,295,388. The aggregate market value of the registrant's Common Stock held by non-affiliates, based upon the closing price on March 17, 1999, as reported on the Nasdaq National Market System, was approximately \$227.7 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the following documents are incorporated by reference into Parts II and III of this Form 10-K: (1) 1998 Annual Report to Stockholders of the Registrant (Part II of this Form 10-K); and (2) Definitive Proxy Statement for the registrant's Annual Meeting of Stockholders to be held May 4, 1999 (Part III of this Form 10-K).

PART I

ITEM 1. BUSINESS

OVERVIEW

Advent Software, Inc. (Advent) is a leading provider of stand-alone and client/server software products, data interfaces and related services that automate and integrate certain mission-critical functions of investment management organizations. Advent Office(TM), an Enterprise Investment Management

(EIM) solution, is an integrated suite of products designed to automate the entire investment management process. The Advent Office suite contains Axys(R), a portfolio accounting and management system, Moxy(R), a trading and order management system, Qube(R), a client relationship management system, Rex(TM), an automated reconciliation system, Advent Warehouse(TM), an investment data warehouse solution, Advent Partner(TM), an investment partnership accounting system, Advent Browser Reporting(TM), an Internet-based solution to access Advent Office information, and Open G/L, a component that allows users to integrate portfolio management data with their general ledger systems. Advent also provides Geneva(R), a real-time accounting and portfolio management solution for global financial institutions, and Gifts for Windows(TM), a grants management solution for the grant-giving community. These products address the need to facilitate the management of increasingly large and complex information and data flows both within investment management organizations and between such organizations and third parties, such as brokerage firms, clients, custodians, banks, pricing services and other data providers. Our products are designed to reduce client costs, improve the accuracy of client information, and generally enable clients to devote more time to improving the service they provide to their customers rather than focusing on operational details. Our strategy is to develop long-term client relationships and to maintain a high level of lifetime client satisfaction which we believe will result in additional recurring revenues from new product licenses, renewals of existing maintenance contracts and the introduction and adoption of new data products.

Our clients include many of the world's leading investment management organizations. These organizations vary significantly in size, assets under management and the complexity of their investment environments. At present, we have licensed our products to over 5,400 institutions in 36 countries for use by more than 30,000 concurrent users.

We were incorporated in 1983 in California and reincorporated in the State of Delaware in November 1995.

#### INDUSTRY BACKGROUND

The investment management business includes a range of organizations that manage investment portfolios, including investment advisors, brokerage firms, banks and hedge funds. In addition, corporations, public funds, foundations, universities and non-profit organizations manage investment portfolios and perform similar portfolio management functions. Recently, the investment management industry has experienced significant growth which, in combination with other factors, has led to increasing demand for software products that automate, simplify and integrate functions within investment management organizations. This increasing demand is driven by several industry dynamics. Financial assets under management have increased substantially during the last decade. As the value of total financial assets under management has increased, there has been a substantial increase in the number of investment management organizations and a steady introduction of increasingly sophisticated financial instruments. As a result, investment managers are faced with increasingly complicated portfolio accounting and management requirements. Investment management organizations are subject to extensive and evolving industry standards and government regulations. These dynamics have increased the volume and complexity of information and data flows within investment management organizations and between such organizations and third parties, such as brokerage firms, clients, custodians, banks, pricing services and other data providers. Consequently, investment management organizations require more sophisticated and integrated software products for their front, middle and back offices. (Front office includes the marketing and customer relationship management aspect of dealing with customers; middle office focuses on trade order management and trading workflow; and the back office includes the accounting functions of the organization.) In order to operate efficiently within this environment, investment management organizations must automate and integrate their mission-critical and labor-intensive functions, including (i) investment decision support and client relationship management, (ii) order management and trading and (iii) portfolio accounting, performance measurement, report generation and compliance. Investment management organizations historically have relied on internally developed systems, timesharing services or simple spreadsheet-based systems to manage information flows. Due to inherent limitations in each of these types of systems, investment management organizations are demanding highly functional,

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easy-to-use, scalable, cost-effective and flexible software applications that automate and integrate their mission-critical business functions.

#### SOFTWARE PRODUCTS

We offer an integrated suite of software products for automating and

integrating work and data flows across the investment management organization, as well as the information flows between the investment management organization and external parties. Our products are intended to reduce client costs, improve the accuracy of client information and generally enable clients to improve the service they provide to their customers rather than focusing on operational details. Each software component in the Advent Office suite focuses on certain mission-critical functions of the investment management organization. Each Advent Office implementation is tailored to meet the needs of a particular market segment, as determined by size, assets under management and complexity of the investment environment. In addition, we believe that our Enterprise Investment Management solution is well suited for the investment management functions of corporations, public funds, partnerships, foundations, universities and non-profit organizations.

An Enterprise Investment Management solution is an evolutionary process which encompasses three phases:

- o Investment Process Integration - involves the integration of front-, mid-, and back-office components with each other as well as with standard productivity applications such as Microsoft Word(R) and Excel(R). This integration eliminates ineffective communication between processes, minimizes processing errors, and enables growth by reducing bottlenecks within the company.
- o Data Collection and Reconciliation - enables the investment firm to integrate the external data regarding pricing and settlements so that the firm can quickly and efficiently settle transactions and monitor performance in an automated fashion.
- o Customer Responsiveness - incorporates the capability for more effective communication with customers related to their needs and holdings with the firm. This capability also enables decision makers for the firm to have timely access to information in order to make more effective decisions on behalf of the clients.

#### BACK OFFICE

We offer three portfolio accounting and management systems: Axys, Advent Partner and Geneva, each targeted at a different market segment, to automate the back office functions.

Axys, our core product, introduced in 1993, is a highly functional portfolio accounting and management system targeted towards investment management organizations of all sizes. Axys provides investment professionals with broad portfolio accounting functionality, timely decision support, sophisticated performance measurement and flexible reporting. Specifically, clients can record, account for and report on a variety of investment instruments, including equities, fixed income, mutual funds and cash. Axys users gain access on demand to portfolio holdings, asset allocation, realized and unrealized gains and losses, actual and projected income and other valuable data. Portfolio performance can be measured for individual portfolios or related groups, and for any specified time period. Investment professionals can choose from over 200 pre-defined reports with flexible "as-of" reporting, which can be customized as to formats and fonts. Clients can easily generate fully customized reports with the assistance of the Axys Report Writer. Clients can also produce presentation-quality graphics via an integrated link with Microsoft Excel's charting capability. In addition, Axys offers integrated multicurrency capabilities which, among other things, allows reports to be restated in any currency, tracks reclaimable foreign withholding tax, and can identify components of return attributable to market prices versus currency rate fluctuations.

Axys also provides integration with a variety of investment tools and data. These include (i) trade order management via Moxy, (ii) pricing, corporate actions, analytics and fundamental data via interfaces to data vendors, (iii) automatic data entry and reconciliation of trades with interfaces to the Depository Trust Corporation (DTC), brokerage firms and custodians (iv) through the Internet via our custodial data service and software, and (v) Internet reporting via the Advent Browser Reporting service, our Internet reporting service.

Advent Partner, introduced in December 1996, is an investment partnership allocation solution which integrates with Axys. This product is specifically designed for hedge funds, venture funds and limited investment partnerships who face the complex and time-consuming task of consistently and accurately accounting for and reporting on partnership tax allocation and other activities. The Windows-based system tracks partner-specific information, handles

the complexities of allocating realized and unrealized gains for tax purposes, allocates performance incentive fees, provides on-demand partner and partnership reporting on an economic or tax allocation basis and streamlines the production of partnership tax returns (K-1's).

Geneva, introduced to target organizations in 1995 and made commercially available in October 1997, is a high-end portfolio management system designed to meet the needs of large, global investment management organizations with complex, international accounting requirements. Geneva offers feature-rich global accounting, extensive reporting and sophisticated multicurrency capabilities. In addition, Geneva's highly flexible design allows users to add newly created financial instruments and tailor accounting treatments to their specific needs.

REX, introduced in February 1997, is the Advent Office solution for reconciliation management. REX is integrated with Axys and is designed for firms that want to electronically reconcile their Axys information against their custodial information. REX automates matching and helps users identify exceptions, correct or add transactions to their portfolios or communicate and track changes required by their custodian.

Advent Warehouse, introduced in 1998, is a complete data warehouse solution that allows investment professionals to readily access investment data regardless of how the data was created or maintained, without impacting the performance of their high volume transaction-based Advent Office systems. Relational technology and data warehousing tools provide an open environment for ad hoc decision support and customized reporting on enterprise wide investment information. Investment professionals can take advantage of the sea of information captured during the investment process to improve client service and gain competitive advantage.

Advent Browser Reporting for Investors, introduced in 1998, allows investment managers to post Axys reports to a secure website where individual clients can access these reports 24 hours a day, 7 days a week. Advent Browser Reporting for Enterprise Users allows investment professionals the ability to access Axys from remote locations via the Internet and run Axys reports as if they were in their office.

#### MIDDLE OFFICE

Moxy, introduced in 1995, automates and streamlines the trading and order management process. Moxy can be integrated with any portfolio accounting system, facilitates accurate trade order management and preparation, tracks trade order status, automates the allocation of block trades across multiple portfolios and electronically interfaces with Axys to provide an integrated solution. Moxy supports fixed income, mutual funds and equity trading and offers multicurrency capabilities. Moxy enables investment managers to accurately adjust portfolio holdings, rebalance portfolios against models, interactively assess "what-if" scenarios and automatically create orders to be executed. For traders, Moxy tracks cash and positions during the trading day, enables the accurate preparation of block trades and internal electronic trade tickets, facilitates compliance with investment restrictions and trading requirements and minimizes trading errors. Moxy also allows traders and others to view the status of orders via customizable screens and maintain an electronic audit trail of the trade process. Moxy automates the allocation process of partial and complete executions and allows the user to send allocation results by fax directly from the computer to brokers and banks. Moxy allows clients using OASYS, an electronic allocation system, to communicate allocations to brokers electronically. Moxy also provides Internet-ready electronic order routing based on the industry standard FIX messaging protocol so that Moxy users can route trades electronically to any FIX-compliant broker or crossing network that supports the Internet or other TCP/IP connections. In the future, Moxy will have additional electronic links that instantly communicate trade and allocation information to brokers and custodians. Moxy electronically posts allocated trades into Axys on demand, eliminating time-consuming and error-prone manual entry.

#### FRONT OFFICE

Qube, introduced in 1995, is designed to help securities professionals develop and improve client relationships by automating scheduling, client communications and client data. For example, Qube enables investment professionals to interactively screen client investment profiles and notes of conversations to identify appropriate candidates for various investment opportunities. In addition, Qube can be used to enhance direct marketing campaigns by matching clients with market opportunities. Qube captures extensive

investment profile information, has on-line query capability, networking features and mail merge capabilities and facilitates information sharing across professionals in an office. Moreover, Qube is designed to be integrated with Axys, allowing users to provide accurate and timely portfolio information to clients.

Advent Browser Reporting for Decision Makers puts the power of data analysis on the portfolio managers desktop via the Internet. Using On-line Analytical Processing (OLAP) tools, investment data can be sliced and diced to improve the decision making process.

#### GRANTS MANAGEMENT

Advent's wholly-owned subsidiary, MicroEdge, acquired in February 1998, provides grants management systems. Gifts for Windows is a proposal tracking and grants management system that allows the user to retrieve and classify requests, generate personalized letters, manage contracts, schedule and monitor activities and maintain complete organization history track payments, contingencies and reports due. This software product is primarily used by the philanthropic community such as foundations, corporations and other organizations to manage their grant-making activities.

#### MAINTENANCE SUPPORT AND DATA INTERFACES

Advent earns recurring revenues by offering a choice of maintenance contracts and by providing proprietary interfaces to external sources of critical data. These interfaces allow clients to (i) download pricing, corporate actions and other data from third party vendors such as Interactive Data, a wholly owned indirect subsidiary of Pearson plc (Interactive Data), and (ii) interface with DTC, certain brokerage firms and custodians for trading activity. Advent continually analyzes the ongoing external data needs of its clients and expects to offer new data products in the future. Many of Advent's clients use Advent's proprietary interface to electronically retrieve pricing and other data from Interactive Data. Interactive Data pays Advent a commission based on Interactive Data's revenues from providing such data to Advent's clients.

In November 1998, Advent acquired HubData, which consolidates securities information and data from various third party providers such as Muller Data, J.J. Kenny, Interactive Data and others, and provides services to a range of financial institutions via electronic interfaces to many portfolio software systems.

Due to the mission-critical nature of Advent's products, many clients purchase annual maintenance contracts which entitle them to technical support and product upgrades as they become available. Advent continually upgrades and enhances its products to respond to changing market needs, evolving regulatory requirements and new technologies.

#### INTERNET INITIATIVE

Advent believes that the Internet can be a low-cost communications platform to integrate external information into Advent products, thereby providing Advent clients with straight through processing of business information. To take advantage of the Internet, Advent has launched an Internet Initiative whereby it is developing services, both announced and unannounced, to bring Internet-based products and services to clients. The first of these services, Custodial Data Service, was launched during the second quarter of 1997. Using the Internet, Advent's Custodial Data Service consolidates communication and information from all participating custodians, enabling Advent clients to quickly and easily reconcile transactions and holdings with a click of the mouse. The second is Advent Browser Reporting, introduced in 1998. Advent Browser Reporting is a reporting component of Advent Office, which provides users the ability to access Advent Office information through a web browser.

From time to time, as Advent begins development of new products and services, including its Internet Initiative, it plans to continue to enter into development agreements with information providers, clients, or other companies in order to accelerate the delivery of new products and services.

#### PROFESSIONAL SERVICES

Professional services consist of consulting, implementation management, integration management, custom programming, and training. To ensure a successful product implementation, consultants assist clients with the initial installation of a system, assist in the conversion of the client's historical data and provide ongoing training and education. Consulting services may be required for as little as two days for small systems or up to many weeks for large

implementations. Advent believes that its consulting services facilitate a client's early success with its products, strengthen the relationship with the client and generate valuable feedback for Advent.

Implementation management provides a single point-of-contact who will work closely with our client's project team to plan the implementation, optimize the use of Advent products, coordinate Advent resources, advocate on their behalf, and minimize schedule delays and project risks. Additionally, an Implementation Manager will document the implementation from planning through production.

Integration management provides services in implementations with more complex needs. Integration Managers work with the clients during implementation to integrate their systems and workflows with Advent products. The services include: development of custom interfaces from back-office systems to Advent's Axys and Moxy products, configuration and management of large volumes of data, and strategies for deployment of Advent products for distributed sites.

Advent provides its clients with custom programming services that enable clients to tailor end-user reports to their own specifications. Advent also provides training sessions to its clients at various sites across the country.

#### CLIENTS

Advent's clients vary significantly in size and assets under management and include investment advisors, brokerage firms, banks, hedge funds, corporations, public funds, universities and non-profit organizations. At present, Advent has licensed its products to over 5,400 institutions in 36 countries for use by more than 30,000 concurrent users.

#### SALES AND MARKETING

##### Sales

Advent sells its products and services through a direct sales organization comprised of field sales and telesales representatives. Advent's field sales force is organized by geographic region and is primarily responsible for selling Advent Office to mid-sized and large investment management organizations. Advent has sales offices in San Francisco, CA, New York, NY and Cambridge, MA. Advent's telesales organization is primarily focused on selling Advent's products to existing Axys clients and small and mid-sized investment management organizations. Advent's telesales representatives are located in San Francisco, New York, Cambridge, MA and Melbourne, Australia. Advent's sales force is supported by extensive ongoing product and sales training.

##### Marketing

The marketing department is responsible for assessing market opportunities, product planning and management and specific sales support. In addition to its traditional marketing functions, the marketing organization is actively involved in a process called "Market ValidationSM," using a system of interaction with and input from potential and existing clients, product development, sales and client services and support departments to define the scope, features and functionality of new products and product upgrades. In addition, product managers are responsible for all phases of a product life cycle from product development through product introduction and beyond. The marketing department is also responsible for corporate marketing, including generating client leads, targeted direct mail campaigns, seminars, advertising, trade shows and conferences and public relations efforts and also provides the sales force with appropriate written and electronic materials to use during the sales process.

#### PRODUCT DEVELOPMENT

In recent years, Advent has substantially increased its product development expenditures in order to accelerate the rate of new product introductions, incorporate new technologies and sustain the quality of its products. In 1998, 1997, and 1996, Advent's product development expenditures were approximately \$12.6 million, \$9.4 million, and \$6.7 million, respectively. In addition to engineering, quality assurance and documentation, Advent's product development activities include the identification and validation of product specifications.

Advent's new products and product upgrades require varying degrees of development time, depending upon the complexity of the accounting requirements and securities regulations which they are intended to address, as well as the number and type of features incorporated. Advent has primarily relied upon the internal development of its products. Advent has in the past acquired, and may again in the future acquire, additional technologies or products from third

parties or consultants. Advent intends to continue to support industry standard operating environments, client/server architectures and network protocols.

There can be no assurance that Advent will be successful in developing, introducing and marketing new products or product enhancements on a timely and cost effective basis, if at all, or that its new products and product enhancements will adequately meet the requirements of the marketplace or achieve market acceptance. Delays in the commencement of commercial shipments of new products or enhancements may result in client dissatisfaction and delay or loss of product revenues. If Advent is unable, for technological or other reasons, to develop and introduce new products or enhancements of existing products in a timely manner in response to changing market conditions or client requirements, or if new products or new versions of existing products do not achieve market acceptance, Advent's business, operating results and financial condition would be materially adversely affected. In addition, Advent's ability to develop new products and product enhancements is dependent upon the products of other software vendors, including certain system software vendors, such as Microsoft Corporation, database vendors and development tool vendors. In the event that the products of such vendors have design defects or flaws, or if such products are unexpectedly delayed in their introduction, Advent's business, operating results and financial condition could be materially adversely affected. Software products as complex as those offered by Advent may contain undetected defects or errors when first introduced or as new versions are released. Although Advent has not experienced material adverse effects resulting from any software errors, there can be no assurance that, despite testing by Advent and its clients, defects or errors will not be found in new products after commencement of commercial shipments, resulting in loss of or delay in market acceptance, which could have a material adverse effect upon Advent's business, operating results and financial condition.

#### COMPETITION

The market for investment management software is segmented by the relative size of the organizations that manage investment portfolios. In addition, the market in each segment is intensely competitive and highly fragmented, subject to rapid change and highly sensitive to new product introductions and marketing efforts by industry participants. Advent's competitors include providers of software and related services as well as providers of timeshare services. Competitors vary in size, scope of services offered and platforms supported. In addition, Advent competes indirectly with existing and potential clients, many of whom develop their own software for their particular needs and therefore may be reluctant to license software products offered by independent vendors such as Advent. With respect to the market for its portfolio accounting products, Advent currently competes primarily with Shaw Data, a division of SunGard Data Systems, Inc., Thomson Financial, a division of The Thomson Corporation, and with a number of other smaller companies. Advent believes that the principal competitive factors affecting its market include product performance and functionality, ease of use, scalability, ability to integrate external data sources, product and company reputation, client service and support and price. There can be no assurance that Advent will be able to compete successfully against current and future competitors or that competitive pressures will not result in price reductions, reduced operating margins and the loss of market share, any one of which could materially adversely affect Advent's business, operating results and financial condition.

#### INTELLECTUAL PROPERTY AND OTHER PROPRIETARY RIGHTS

Advent's success is dependent in part on its ability to protect its proprietary technology. Advent relies on a combination of copyright and trademark laws, trade secrets, software security measures, confidentiality agreements and license agreements to establish and protect its proprietary rights and its software. Despite these efforts, it may be possible for unauthorized third parties to copy certain portions of Advent's products or to reverse engineer or otherwise obtain and use proprietary information of Advent. Advent does not have any patents, and existing copyright laws afford only limited protection. In addition, Advent cannot be certain that others will not develop substantially equivalent or superseding proprietary technology, or that equivalent products will not be marketed in competition with Advent's products, thereby substantially reducing the value of Advent's proprietary rights. Furthermore, there can be no assurance that any confidentiality agreements between Advent and its employees or any license agreements with its clients will provide meaningful protection of Advent's proprietary information in the event of any unauthorized use or disclosure of such proprietary information. In addition, the laws of certain countries do not protect Advent's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurance that Advent will be able to protect its proprietary



software against unauthorized third party copying or use, which could adversely affect Advent's business, operating results and financial condition.

#### EMPLOYEES

As of December 31, 1998, Advent had 481 full-time employees, including 54 in sales, 75 in professional services, 43 in marketing, 129 in product development, 109 in client services and support and 71 in finance, administration, operations and general management. Advent believes that it maintains competitive compensation, benefits, equity participation and work environment policies to assist in attracting and retaining qualified personnel. Advent's success depends to a significant extent upon a limited number of members of senior management and other key employees, including Stephanie DiMarco, Advent's Chairman of the Board and Chief Executive Officer. The loss of the service of one or more senior managers or other employees could have a material adverse effect upon Advent's business, operating results and financial condition. None of Advent's employees is represented by a labor union. Advent has not experienced any work stoppages and considers its relations with its employees to be good.

#### ITEM 2. PROPERTIES

Advent leases office space in facilities in San Francisco, CA, New York, NY, Millburn, NJ, Cambridge, MA, and Melbourne, Australia. Advent has three separate leases in San Francisco, a 59,000 square foot lease that expires in 2008 with a 5 year extension option, a 32,000 square foot lease in an adjacent building that expires in 2004, and a 60,000 square foot lease that expires in 2009. These are Advent's principal executive offices, where product development, marketing, technical support and production are located. Advent leases two separate office spaces in New York; a 12,100 square foot lease and another 5,300 square foot lease in the same building, expiring in 2003 and a 28,500 square foot lease for MicroEdge, that expires in 2008 with a 5 year extension. Advent has a 1000 square foot lease in New Jersey that expires in 2000. Advent has a 6,700 square foot lease in Cambridge, MA, which expires in 2003. In addition, there is a 4,000 square foot lease in Melbourne, Australia that expires in 2003. Advent believes that its facilities are adequate for its near-term needs and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

#### ITEM 3. LEGAL PROCEEDINGS

None.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

None.

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#### EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information regarding the executive officers of Advent as of March 17, 1999:

Name	Age	Position
Stephanie G. DiMarco	41	Chairman of the Board and Chief Executive Officer
Peter M. Caswell	42	President and Chief Operating Officer
Lily S. Chang	50	Executive Vice President and Chief Technology Officer
Irv H. Lichtenwald	43	Senior Vice President, CFO and Secretary

Ms. DiMarco founded Advent in June 1983 and, since such date, has served as Chief Executive Officer. She became Chairman of the Board in September 1995. In addition, she served as President until April of 1997, when Peter Caswell was promoted to President and Chief Operating Officer. Ms. DiMarco holds a B.S. in Business Administration from the University of California at Berkeley.

Mr. Caswell joined Advent in December 1993 as Vice President, Sales and Professional Services. In 1996 Mr. Caswell took on responsibility for Advent's marketing efforts and was promoted to Senior Vice President. In April 1997, Mr. Caswell became President and Chief Operating Officer. From May 1986 to December 1993, Mr. Caswell held various management positions, including Vice President and General Manager, Western Region, with Dun & Bradstreet Software Services, Inc. and its predecessor, Management Science America, Inc., a supplier of computer software for finance, marketing, manufacturing and human resource

functions. Mr. Caswell holds a diploma in Management Studies (M.B.A. equivalent) and a Higher National Diploma in Agriculture (B.S. equivalent) from Seale Hayne College in England.

Ms. Chang joined Advent in May 1993 as Vice President, Technology. In April of 1997, Ms. Chang was promoted to Executive Vice President, Technology and was also named Chief Technology Officer. From July 1989 to May 1993, Ms. Chang held various positions, including Vice President, Strategic Accounts and Vice President of Oracle Financial Applications, with Oracle Corporation, a software licensing and consulting business. Ms. Chang holds a B.S. in Biochemistry from Taiwan University.

Mr. Lichtenwald joined Advent in March 1995 as Chief Financial Officer. From February 1984 to March 1995, Mr. Lichtenwald served as Chief Financial Officer of Trinzic Corporation, a computer software developer, and its predecessor Aion Corporation. From February 1982 to February 1984, he served as controller of Visicorp, a computer software developer. Mr. Lichtenwald holds an M.B.A. from the University of Chicago and a B.B.A. from Saginaw Valley State College. Mr. Lichtenwald is a Certified Public Accountant.

## PART II

With the exception of the information incorporated by reference to the 1998 Annual Report to Stockholders in Part II of this Form 10-K, Advent's 1998 Annual Report to Stockholders is not deemed to be filed as part of this Form 10-K.

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

Advent had approximately 166 stockholders of record at March 17, 1999. Other information required by this Item is incorporated by reference to the sections entitled "Selected Financial Data - Price Range of Common Stock" and "Corporate Information - Stock Information" in Advent's 1998 Annual Report to Stockholders.

### ITEM 6. SELECTED FINANCIAL DATA

Other information required by this Item is incorporated by reference to the sections entitled "Selected Financial Data - Selected Annual Data" and "-Selected Quarterly Data" in Advent's 1998 Annual Report to Stockholders.

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

The information required by this Item is incorporated by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Advent's 1998 Annual Report to Stockholders.

In addition, we operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. The following discussion highlights some of these risks.

Our operating results fluctuate significantly and we may not be able to maintain our existing growth rates. Licenses into multi-user networked environments have increased both in individual size and number, the timing and size of individual license transactions are becoming increasingly important factors in quarterly operating results. The sales cycles for transactions of this size are often lengthy and unpredictable. There can be no assurance that we will be successful in closing large license transactions such as these on a timely basis or at all. Accordingly, if in the future revenues from large site licenses constitute a material portion of our net revenues, the timing of such licenses could cause additional variability in our quarterly operating results. Our software products typically are shipped shortly after receipt of a signed license agreement and initial payment and, consequently, software product backlog at the beginning of any quarter typically represents only a small portion of that quarter's expected revenues. Our expense levels are based in significant part on our expectations of future revenues and therefore are relatively fixed in the short term. Due to the fixed nature of these expenses combined with the relatively high gross margin historically achieved by us on products and services, an unanticipated decline in net revenues in any particular quarter is likely to disproportionately adversely affect operating results.

We have generally realized lower revenues from license fees in the first quarter of the year than in the immediately preceding quarter. We believe that this has been due primarily to the concentration by some clients of larger capital purchases in the fourth quarter of the calendar year and their lower

purchasing activity during the subsequent first quarter. We believe our annual incentive compensation plans which result in increased year-end sales activity compound this factor. Furthermore, we have often recognized a substantial portion of our license revenues in the last month of a quarter.

Due to all of the foregoing factors, we believe that period to period comparisons of our operating results are not necessarily meaningful and that such comparisons cannot be relied upon as indicators of future performance.

Our stock price has fluctuated significantly since the initial public offering in November 1995. Like many companies in the technology and emerging growth sector, our stock price may be subject to wide fluctuations, particularly during times of high market volatility. If net revenues or earnings in any quarter fail to meet the investment community's expectations, our stock price could decline. In addition, the stock price may be affected by broader market trends unrelated to our performance

We depend heavily on our product, Axys. In 1996, 1997 and 1998, we derived a substantial majority of our net revenues from the licensing of Axys and related products and services. In addition, many of our other products, such as Moxy, Qube and various data interfaces were designed to operate with Axys to provide an integrated solution. As a

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result, we believe that a majority of our net revenues, at least through 1999, will be dependent upon continued market acceptance of Axys, enhancements or upgrades to Axys and related products and services.

The success of our new product, Geneva, is uncertain. In 1995, we introduced Geneva to target organizations with complex international accounting and reporting requirements, and in late 1997, we announced its full commercial availability. We are directing a significant amount of our product development expenditures to the on-going development of Geneva and plan to devote a significant amount of our future sales and marketing resources to Geneva. We have limited experience in developing products for this market. Because of such limited client experience, there can be no assurance that Geneva will not require substantial software enhancements or modifications to satisfy performance requirements of clients or to fix design defects or previously undetected errors. Further, there can be no assurance that we will be successful in marketing Geneva. Our failure to successfully market Geneva could adversely affect our business and operating results.

We are developing an Internet Initiative. To take advantage of the Internet, we have launched an Internet Initiative whereby we are developing services, both announced and unannounced, to bring Internet based products and services to clients. The first of these services, Rex, was launched during the first quarter of 1997. The second service, Advent Browser Reporting, was launched in the third quarter of 1998. As we begin development of new products and services under our Internet Initiative, we have and will continue to enter into development agreements with information providers, clients, or other companies in order to accelerate the delivery of new products and services. There can be no assurance that we will be successful in marketing Rex or in developing other Internet services. Our failure to do so could adversely affect our business and operating results.

We depend upon new products and product enhancements. Our future success will continue to depend upon our ability to develop new products that address the future needs of our target markets and to respond to emerging industry standards and practices. Delays in the commencement of commercial shipments of new products or enhancements may result in client dissatisfaction and delay or loss of product revenues. In addition, our ability to develop new products and product enhancements is dependent upon the products of other software vendors, including certain system software vendors, such as Microsoft Corporation, database vendors and development tool vendors. In the event that the products of such vendors have design defects or flaws, or if such products are unexpectedly delayed in their introduction, our business, operating results and financial condition could be materially adversely affected.

We depend upon financial markets. The target clients for our products include a range of organizations that manage investment portfolios, including investment advisors, brokerage firms, banks and hedge funds. In addition, we target corporations, public funds, universities and non-profit organizations, which also manage investment portfolios and have many of the same needs. The success of many of our clients is intrinsically linked to the health of the financial markets. We believe that demand for our products could be disproportionately affected by fluctuations, disruptions, instability or downturns in the financial markets which may cause clients and potential clients

to exit the industry or delay, cancel or reduce any planned expenditures for investment management systems and software products. Additionally, during the next twelve months there is likely to be an increased customer focus on addressing Year 2000 issues, creating the risk that customers may reallocate capital expenditures to fix Year 2000 problems of existing systems.

Our relationship with Interactive Data is important. Many of our clients use our proprietary interface to electronically retrieve pricing and other data from Interactive Data. Interactive Data pay us a commission based on their revenues from providing such data to our clients. Our software products have been customized to be compatible with their system and such software would need to be redesigned if their services were unavailable for any reason. In the event that our relationship with Interactive Data were terminated or their services were unavailable to our clients for any reason, replacing these services could be costly and time consuming.

Our competition is intense. The market for investment management software is segmented by the relative size of the organizations that manage investment portfolios. In addition, the market in each segment is intensely competitive and highly fragmented, subject to rapid change and highly sensitive to new product introductions and marketing efforts by industry participants. Our competitors include providers of software and related services as well as providers of timeshare services.

Competitors vary in size, scope of services offered and platforms supported. In addition, we compete indirectly with existing and potential clients, many of whom develop their own software for their particular needs and therefore may be

reluctant to license software products offered by independent vendors like us. Many of our competitors have longer operating histories and greater financial, technical, sales and marketing resources than we do. There can be no assurance that we will be able to compete successfully against current and future competitors or that competitive pressures will not result in price reductions, reduced operating margins and loss of market share, any one of which could materially adversely affect our business, operating results and financial condition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We considered the provision of Financial Reporting Release No. 48 "Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments, and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments and Derivative Commodity Instruments". We had no holdings of derivative financial or commodity instruments at December 31, 1998. However, we are exposed to financial market risks, including changes in foreign currency exchange rates and interest rates. Much of our revenue and capital spending is transacted in U.S. dollars. However, with the acquisition of Portfolio Management Systems, these subsidiary revenues and capital spending are transacted in Australian dollars. Results of operations from Portfolio Management Systems are not material to the results of operations of Advent, therefore, we believe that foreign currency exchange rates should not materially adversely affect our overall financial position, results of operations or cash flows. We believe that the fair value of our investment portfolio or related income would not be significantly impacted by increases or decreases in interest rates due mainly to the short-term nature of our investment portfolio. However, a sharp increase in interest rates could have a material adverse affect on the fair value of our investment portfolio. Conversely, sharp declines in interest rates could seriously harm interest earnings of our investment portfolio.

The table below presents principal amounts by expected maturity (in U.S. dollars) and related weighted average interest rates by year of maturity for our investment portfolio.

ESTIMATED FAIR VALUE

AT DECEMBER 31,

<TABLE>  
<CAPTION>

	1999	2000	2001	Thereafter	Total
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>

Commercial Paper & Short-term obligations	\$ 6,595,000	\$ -	\$ -	\$ -	\$ 6,595,000
Weighted Average Interest Rate	4.07				4.07
Corporate Notes & Bonds	3,405,000	-	-	-	3,405,000
Weighted Average Interest Rate	7.36				7.36
Municipal Notes & Bonds	10,140,000	2,250,000	-	-	12,390,000
Weighted Average Interest Rate	4.52	5.03			4.61
Total Portfolio, excluding equity securities	\$ 20,140,000	\$ 2,250,000	\$ -	\$ -	\$ 22,390,000

</TABLE>

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(1) Financial Statements.

The following financial statements of Advent and the Report of Independent Accountants are incorporated by reference to page 45 through 63 of Advent's 1998 Annual Report to Stockholders:

Consolidated Balance Sheets - December 31, 1998 and 1997

Consolidated Statements of Operations - Years Ended December 31, 1998, 1997, and 1996

Consolidated Statements of Stockholders' Equity- Years Ended December 31, 1998, 1997, and 1996

Consolidated Statements of Cash Flows- Years Ended December 31, 1998, 1997, and 1996

Notes to Consolidated Financial Statements

Report of Independent Accountants

(2) Financial Statement Schedules.

The following financial statement schedules of Advent for the years ended December 31, 1998, 1997, and 1996 are filed as part of this Form 10-K and should be read in conjunction with Advent's Financial Statements.

Report of Independent Accountants S-1

Schedule II --- Valuation and Qualifying Accounts S-2

Schedules not listed above have been omitted because they are not applicable or are not required or because the required information is included in the Financial Statements or Notes thereto.

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

None.

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PART III

Certain information required by Part III is omitted from this Form 10-K in that the Registrant will file a definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, (Proxy Statement) not later than 120 days after the end of the fiscal year covered by this Form 10-K and certain information included therein is incorporated herein by reference. Only those sections of the Proxy Statement that specifically address the items set forth herein are incorporated by reference and such

incorporation does not include, specifically, the Performance Graph included in such Proxy Statement.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information concerning Advent's directors required by this Item is incorporated by reference to Advent's Proxy Statement.

The information concerning Advent's executive officers required by this Item is incorporated by reference herein to the section of the Form 10-K in Part I, Item 4, entitled "Executive Officers of Advent."

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 is to be set forth in Advent's Proxy Statement and such information is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference to Advent's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is incorporated by reference to Advent's Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is incorporated by reference to Advent's Proxy Statement.

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

- (a) The following documents are filed as a part of this Annual Report on Form 10-K:
1. Consolidated Financial Statements required to be filed by Item 8 of Form 10-K. See the list of Financial Statements contained in Item 8 of this Report.
  2. Financial Statement Schedules required to be filed by Item 8 of Form 10-K. See the list of Financial Statement Schedules contained in Item 8 of this Report.

3. Exhibits.

The Exhibits listed on the accompanying Index to Exhibits immediately following the financial statement schedules are filed as part of, or incorporated by reference into, this Form 10-K.

Exhibit Number	Description of Document
2.1+	Agreement and Plan of Merger between Registrant and Advent Software, Inc., a California corporation, effective November 10, 1995.
3.1+	Certificate of Incorporation of Registrant.
3.2+	Amended and Restated Certificate of Incorporation of Registrant.
3.3**	Amended and Restated Bylaws of Registrant.
4.1+	Specimen Common Stock Certificate of Registrant.
10.1+	Form of Indemnification Agreement for Executive Officers and Directors.
10.2+	1992 Stock Plan, as amended, and form of stock option agreement.
10.3+	1993 Profit Sharing & Employee Savings Plan, as amended.
10.4+	1995 Employee Stock Purchase Plan and form of subscription agreement.
10.5+	1995 Director Option Plan and form of stock option agreement.
10.6+	Common Stock Option Agreement between Advent and Maurice J. Duca dated September 15, 1989 as amended by the Amendment and Correction to Common Stock Option Agreement dated July 1993.
10.7+	Full Service Office Lease dated April 14, 1992, as amended, between Brannan Street Properties and Advent for facilities located at 301 Brannan in San Francisco, California.
10.8+	Standard Form of Lease dated November 6, 1992 between Broadway Management Company as agent for 500 Fifth Avenue Associates and Advent for facilities located at 500 Fifth Avenue, New York, New York.

- 10.9+ Severance Agreement between Advent and Peter M. Caswell dated December 10, 1993.
- 10.10+\* Agreement between Advent and Interactive Data Corporation dated January 1, 1995.
- 10.14 Office Lease dated August 1, 1998, between SOMA Partners, L.P. and Advent for facilities located at 301 Brannan in San Francisco, California.
- 13.1 Selected Portions of Advent Software, Inc.'s 1998 Annual Report to Stockholders.
- 21.1 Subsidiaries of Advent.
- 23.1 Consent of PricewaterhouseCoopers LLP, Independent Accountants.
- 24.1 Power of Attorney (included on page 16 of this Form 10-K).
- 27.1 Financial Data Schedule.

- + Incorporated by reference to the exhibit filed with Advent's registration statement filed on Form SB-2 (commission file number 33-97912-LA), declared effective on November 15, 1995.
- \* Confidential treatment requested as to certain portions of this exhibit.
- \*\* Incorporated by reference to Advent's Annual Report on Form 10-K for the year ended December 31, 1997.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 17th day of March, 1999.

ADVENT SOFTWARE, INC.

By: /s/ Stephanie G. DiMarco

-----  
 Stephanie G. DiMarco  
 Chairman of the Board and  
 Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stephanie G. DiMarco and Irv H. Lichtenwald, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ Stephanie G. DiMarco ----- Stephanie G. DiMarco	Chairman of the Board and Chief Executive Officer and Director (Principal Executive Officer)	March 17, 1999 -----
/s/ Irv H. Lichtenwald ----- Irv H. Lichtenwald	Senior Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 17, 1999 -----
/s/ Frank H. Robinson ----- Frank H. Robinson	Director	March 17, 1999 -----
/s/ Wendell G. Van Auken ----- Wendell G. Van Auken	Director	March 17, 1999 -----

/s/ William F. Zuendt                      Director                      March 17, 1999  
-----  
William F. Zuendt

/s/ Monte Zweben                      Director                      March 17, 1999  
-----  
Monte Zweben

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Advent Software, Inc.:

Our audits of the consolidated financial statements referred to in our report dated January 15, 1999 appearing on page 63 of the 1998 Annual Report to Shareholders of Advent Software, Inc (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedules listed in Item 14(a)(2) of this Form 10-K. In our opinion, these financial statement schedules present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP

San Francisco, California  
January 15, 1999

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Schedule II

ADVENT SOFTWARE, INC

VALUATION AND QUALIFYING ACCOUNTS  
for the years ended December 31, 1996, 1997, and 1998

Description	Balance at Beginning of Period	Additions Charged to Expense	Charged to Other Accounts	Deductions	Balance at End of Period
Allowance for doubtful accounts:					
1996	\$ 258,000	\$ 115,000	--	\$ 138,000	\$235,000
1997	\$ 235,000	\$ 248,000	--	\$ 218,000	\$265,000
1998	\$ 265,000	\$ 471,000	--	\$ 374,000	\$362,000

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OFFICE LEASE  
SUMMARY OF LEASE TERMS

301 Brannan Street San Francisco, California

A. Date: August 1, 1998

B. Landlord: SOMA PARTNERS, L.P., a  
California limited partnership

Landlord's address for notices: c/o Stein Kingsley Stein  
[Paragraph 22(k)]  
235 Montgomery Street  
Suite 1810  
San Francisco, CA 94104

C. Tenant: ADVENT SOFTWARE, INC., a  
Delaware corporation

Tenant's address for notices: 301 Brannan Street  
[Paragraph 22(k)] 6th Floor  
San Francisco, CA 94107

Tenant Contact Person: Rick Roberts

D. Floor(s) on which Premises 2nd, 3rd, 4th, 5th & 6th  
situated:  
[Paragraph 1(g)]

E. Rentable area of Premises: 58,955 Square Feet  
[Paragraph 1(g)]

F. Tenant's Percentage Share: 85.3%  
[Paragraph 1(m)]

G. Base Expense Year: 1999  
[Paragraph 1(a)]

H. Base Tax Year: 1999  
[Paragraph 1(b)]

I. Term; Commencement and  
Expiration Dates:  
[Paragraph 2]

Ten (10) years,  
commencing on  
November 1, 1998, and  
expiring on  
October 31, 2008.

i.

- J. Basic Monthly Rental: [Paragraph 3(a)]
- Months 1 through 24: One Hundred Fifty-two Thousand Seven Hundred Fifty and 58/100 Dollars (\$152,750.58)
- Months 25 through 60: One Hundred Fifty-nine Thousand Six Hundred Sixty-nine and 75/100 Dollars (\$159,669.75).
- Months 61 through 120: One Hundred Seventy-nine Thousand Three Hundred Twenty-one and 46/100 Dollars (\$179,321.46).
- Basic Annual Rental:
- Months 1 through 24: One Million Eight Hundred Thirty-three Thousand Seven and 00/100 Dollars (\$1,833,007.00).
- Months 25 through 60: One Million Nine Hundred Sixteen Thousand Thirty-seven and 00/100 Dollars (\$1,916,037.00).
- Months 61 through 120: Two Million One Hundred Fifty-one Thousand Eight Hundred Fifty-seven and 50/100 Dollars (\$2,151,857.50).
- Monthly Storage Rental:
- One Thousand Four Hundred and 00/100 Dollars (\$1,400.00)
- K. CPI Adjustment Dates for the Monthly Storage Rental only: [Paragraph 3(c)]
- November 1st of each year commencing in the year 1999
- L. Security Deposit: [Paragraph 3(e)]
- If Tenant's Net Worth is \$30 million or more: \$179,321.46.

If Tenant's Net Worth is less than \$30 million for four (4) consecutive quarters: \$358,642.92.

If Tenant's Net Worth is less than \$20 million for four (4) consecutive quarters: \$717,285.84.

M. Landlord's Broker(s):  
[Paragraph 22(q)]

SKS Rosenberg, LLC

ii.

N. Tenant's Broker(s): [Paragraph 22(q)]

Cushman & Wakefield

O. Exhibits and addenda:  
[Paragraph 22(u)]

Exhibit A: Floor Plan  
Exhibit A-1: Storage Area  
Exhibit B: Building Rules and Regulations  
Exhibit C: Commencement Date Memorandum  
Exhibit D: License Agreement  
Exhibit E: Base Building Description

The provisions of the Lease identified above in brackets are those provisions where references to particular Lease Terms appear. Each such reference shall incorporate the applicable Lease Terms. In the event of any conflict between the Summary of Lease Terms and the Lease, the latter shall control.

LANDLORD:

SOMA PARTNERS, L.P., a California limited partnership

By SKS/Rosenberg, LLC, a Delaware limited liability company, general partner

By Stein Kingsley Stein, a California corporation, Member

By /s/ Paul Stein

-----  
Its President  
-----

TENANT:

ADVENT SOFTWARE, INC.,  
a Delaware corporation

By /s/ Irv Lichtenwald  
-----  
Its CFO  
-----

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- EXHIBIT D: LICENSE AGREEMENT
- EXHIBIT E: BASE BUILDING DESCRIPTION

v.

301 BRANNAN STREET

OFFICE LEASE

THIS LEASE is dated for reference purposes only as of August \_\_, 1998, between SOMA PARTNERS, L.P., a California limited partnership ("Landlord"), and ADVENT SOFTWARE, INC., a Delaware corporation ("Tenant").

W I T N E S S E T H:

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises described in Paragraph 1(g) below, for the term and subject to the terms, covenants, agreements and conditions hereinafter set forth.

1. DEFINITIONS. In addition to terms that are defined elsewhere in this Lease, unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified:

(a) The term "Base Expense Year" shall mean the calendar year set forth in Paragraph G of the Summary of Lease Terms.

(b) The term "Base Tax Year" shall mean the property tax fiscal year set forth in Paragraph H of the Summary of Lease Terms.

(c) The term "Building" shall mean the office building located at 301 Brannan Street in San Francisco, California.

(d) The term "Building Standard Improvements" shall mean those improvements installed in the Premises at Landlord's expense.

(e) The term "Land" means the parcel(s) of land on which the Building and the connected underground garage are located.

(f) The term "Operating Expenses" shall mean the total costs and expenses incurred by Landlord in connection with the management, operation, maintenance, repair and ownership of the Real Property (as defined in Paragraph 1(h) hereof), including, without limitation, the following costs: (1) salaries, wages, bonuses and other compensation (including hospitalization, medical, surgical, retirement plan, pension plan, union dues, life insurance, including group life insurance, welfare and other fringe benefits, and vacation, holidays and other paid absence benefits) relating to employees of Landlord or its agents engaged in the management, operation,

repair, or maintenance of the Real Property and costs of training such employees; (2) payroll, social security, workers' compensation, unemployment and similar taxes with respect to such employees of Landlord or its agents, and the cost of providing disability or other benefits imposed by law or otherwise, with respect to such employees; (3) uniforms (including the cleaning, replacement and pressing thereof) provided to such employees; (4) premiums incurred by Landlord with respect to fire, other casualty, boiler and machinery, theft, rent interruption liability insurance, any other insurance as is deemed necessary or advisable in the reasonable judgment of Landlord, or any insurance required by the holder of any Superior Interest (as defined in Paragraph 15), all in such amounts as Landlord determines to be appropriate, and are consistent with the amounts maintained by comparable landlords in comparable office buildings in the "Multimedia Gulch" area of the South of Market District of San Francisco ("Comparable Landlords"); (5) water charges and sewer rents or fees; (6) license, permit and inspection fees and charges; (7) sales, use and excise taxes on goods and services purchased by Landlord in connection with the operation, maintenance or repair of the Real Property and building systems and equipment; (8) telephone, telegraph, postage, stationery supplies and other expenses incurred in connection with the operation, maintenance, or repair of the Real Property; (9) management fees and expenses (including fees and expenses for accounting, financial management, data processing and information services) which are not in excess of such fees and expenses customarily charged by Comparable Landlords as operating expenses; (10) repairs to and physical maintenance of the Real Property, including building systems and appurtenances thereto and normal repair of worn-out equipment, facilities and installations, but excluding the replacement of building systems (except to the extent otherwise included as an Operating Expense pursuant to this Paragraph 1(f)); (11) janitorial service for the public or common areas of the Real Property,

window cleaning, extermination, water treatment, rubbish removal, plumbing and other services and inspection or service contracts for elevator, electrical, mechanical, sanitary, heating, ventilation and air conditioning, and other building equipment and systems, or as may otherwise be necessary or proper for the operation or maintenance of the Real Property; (12) supplies, tools, materials and equipment (to the extent the cost of such tools and equipment would not be excluded from "Operating Expenses" in accordance with this Paragraph 1(f) as capital assets) used in connection with the operation, maintenance or repair of the Real Property; (13) accounting, legal and other professional, consulting or service fees and expenses; (14) painting the exterior or the public or common areas of the Building and the cost of maintaining the sidewalks, landscaping and other common areas of the Real Property; (15) all costs and expenses for electricity, chilled water, air conditioning, water for heating, gas, fuel, steam, heat, lights, sewer service, communications service, power and other energy related utilities required in

2.

connection with the operation, maintenance and repair of the public or common areas of the Real Property; (16) the cost of any capital improvements made by Landlord to the Real Property or capital assets acquired by Landlord that are: (i) required under any governmental law or regulation with which the Real Property was not required to comply on or before the Commencement Date (the cost or allocable portion to be amortized over the useful life of the improvement or asset, determined in accordance with generally accepted accounting principles ("GAAP")), (ii) designed to reduce other Operating Expenses (the cost or allocable portion of which shall be included in Operating Expenses in any year to the extent of such reduction in Operating Expenses during such year (as reasonably estimated by Landlord) until the earlier of the date such cost is fully amortized or the term of the Lease expires or is sooner terminated), or (iii) any other capital improvements or capital assets, provided Tenant's Percentage Share of the aggregate cost of such other capital improvements or capital assets does not exceed \$10,000.00 in any year of the term of the Lease (or extension thereof), together with interest on the unamortized balance at a rate per annum equal to either the Reference Rate (as defined in Paragraph 3(d) hereof) charged at the time such capital improvements or capital assets are constructed or acquired (to the extent Landlord did not borrow any funds to finance such construction or acquisition), or such rate as may have been paid by Landlord on funds borrowed for the purpose of constructing or acquiring such capital improvements or capital assets (provided Landlord uses good faith diligent efforts to obtain the lowest rate obtainable by Landlord), but in either case not more than the maximum rate permitted by law at the time such capital improvements or capital assets are constructed or acquired; (17) the cost of furniture, window coverings, carpeting, decorations, landscaping and other customary and ordinary items of personal property provided by Landlord for use in common areas of the Real Property or in the Building office (to the extent that such Building office is dedicated to the operation and management of the Real Property and to the extent such is consistent with the practice of



Comparable Landlords), such costs to be amortized over the useful life thereof; (18) any such expenses and costs resulting from substitution of work, labor, material or services in lieu of any of the above itemizations, or for any such additional work, labor, services or material resulting from compliance with any governmental laws, rules, regulations or orders applicable to the common areas of the Real Property; (19) property management office rent or rental value if Landlord maintains a property management office in the Building; and (20) cost of operation, repair and maintenance of the parking garage serving the Building, including resurfacing, restriping and cleaning, provided that increases in such parking costs shall not be recovered as increases in Operating Expenses to the extent that such cost increases are recovered through increases in the parking fees charged pursuant to Paragraph 26 hereof.

3.

To the extent costs and expenses described above relate to both the Real Property and other property, such costs and expenses shall, in determining the amount of Operating Expenses, be allocated as Landlord may reasonably determine to be appropriate.

Notwithstanding anything to the contrary in this Lease Operating Expenses shall not include the following: (i) depreciation on the Building; (ii) debt service; (iii) rental under any ground or underlying lease; (iv) interest (except as expressly provided in this Paragraph 1(f)); (v) Real Property Taxes; (vi) attorneys' fees and expenses incurred in connection with lease negotiations with prospective Building tenants or Tenant; (vii) the cost of any improvements or equipment or capital assets which would be properly classified as capital expenditures (except for any capital expenditures expressly included in Operating Expenses pursuant to this Paragraph 1(f)); (viii) the cost of decorating, improving for tenant occupancy, painting or redecorating portions of the Building to be demised to tenants; (ix) advertising expenses relating to vacant space; (x) real estate brokers' or other leasing commissions; (xi) costs occasioned by any violation of law by Landlord or its agents, employees, or contractors; (xii) costs for which Landlord is directly reimbursed by insurance, tenants or others; (xiii) attorneys' fees, costs or other disbursements incurred in connection with negotiations or disputes with Tenant or any other occupant of the Real Property and costs arising from the violation by Landlord or any occupant of the Real Property of the terms and conditions of any lease or other agreement; (xiv) depreciation, amortization or other expense reserves; (xv) interest, charges and fees incurred on debt and all payments on mortgages; (xvi) costs of sculptures, fountains, paintings and other art objects; (xvii) costs to investigate the presence of (unless such investigation is required by law) or respond to any claim of hazardous substance (as defined in the Lease), contamination or damage, costs to remove any hazardous substance from the Real Property and any judgments in connection with any hazardous substance exposure or releases, except to the extent caused by the use, storage or disposal of the hazardous substance in question by Tenant or unless caused by a change in the environmental laws (as defined in the Lease) after the Commencement Date;

(xviii) overhead and profit increment paid to Landlord or to any subsidiaries or affiliates of Landlord for goods and/or services in the Real Property to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis; (xix) costs and expenses which Tenant pays directly to a third person; (xx) costs associated with the operation of the business of the limited partnership, limited liability company, corporation or other entity which constitutes the Landlord (as the same are distinguished from the costs of operation of the Building), including partnership, limited liability, corporation or other entity accounting and legal matters, costs of defending any lawsuit with any mortgagee,

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costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Building, costs of any disputes between Landlord and its employees (if any) not engaged in Building operation, and disputes of Landlord with Building management; (xxi) attorneys' fees paid in connection with disputes with other tenants; (xxii) costs to correct any construction defect in the Premises or the Real Property (to the extent such cost would be excluded from Operating Expenses under this Paragraph 1(f)); (xxiii) costs to comply with any CC&R's or underwriter's requirements applicable to the Premises or the Real Property on the Commencement Date (to the extent such cost would be excluded from Operating Expenses under this Paragraph 1(f)); (xxiv) lease payments and costs for capital machinery and equipment, such as air conditioners, elevators, and the like (to the extent the cost of such items would be excluded from Operating Expenses under this Paragraph 1(f)); (xxv) costs associated with utilities and services of a type not provided to Tenant; (xxvi) any expense which would not normally be treated as an Operating Expense by Comparable Landlords; and (xxvii) costs arising from the negligence or wilful misconduct of Landlord or its agents, or any vendors, contractors, or providers of materials or services selected, hired or engaged by Landlord.

(g) The term "Premises" shall mean the space in the Building designated by cross-hatching on the floor plan(s) attached hereto as Exhibit A (exclusive of the areas, if any, shown by shading) and situated on the floor(s) of the Building specified in Paragraph D of the Summary of Lease Terms, together with the appurtenant right to the use, in common with others, of lobbies, entrances, stairs, elevators and other public portions of the Building. Notwithstanding the foregoing, Landlord acknowledges that Tenant intends to install a new card swipe security system in the Premises at Tenant's sole cost and expense, and that in connection therewith Tenant shall have the exclusive right, in common with Landlord, to utilize the stairs and common areas between each floor of the Premises for the purposes of access, ingress and egress to other portions of the Premises, and that no other tenant, person or entity shall have the right to use said stairs and/or common areas under any circumstances (except in the event of emergency). Tenant agrees that other tenants and persons may use the stairs and other common areas between the garage parking area and the first floor of the Building. Landlord and Tenant agree that the Premises contain the number of square feet of rentable area specified in Paragraph E of

the Summary of Lease Terms. All the outside walls and windows of the Premises and any space in the Premises used for shafts, stacks, pipes, conduits, ducts, electric or other utilities, sinks or other Building facilities, and the use thereof and access thereto through the Premises for the purposes of operation, maintenance and repairs, are reserved to Landlord.

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(h) The term "Real Property" shall mean, collectively, the Land, the Building, the connected parking garage, and the other improvements on the Land.

(i) The term "Real Property Taxes" shall mean all taxes, assessments (whether general or special), excises, transit charges, housing fund assessments or other housing charges, levies or fees, ordinary or extraordinary, unforeseen as well as foreseen, of any kind, which are assessed, levied, charged, confirmed or imposed on the Real Property or any part thereof, on the Landlord with respect to the Real Property, on the act of entering into this Lease or any other lease of space in the Real Property, on the use or occupancy of the Real Property or any part thereof, with respect to services or utilities consumed in the use, occupancy or operation of the Real Property, or on or measured by the rent payable under this Lease or in connection with the business of renting space in the Real Property, including, without limitation, any gross income tax or excise tax levied with respect to the receipt of such rent, by the United States of America, the State of California, the City and County of San Francisco, any political subdivision, public corporation, district or other political or public entity or public authority, and shall also include any other tax, fee or other excise, however described, which may be levied or assessed in lieu of, as a substitute (in whole or in part) for, or as an addition to, any other Real Property Taxes. Real Property Taxes shall include reasonable attorneys' fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce Real Property Taxes, provided Landlord shall have provided Tenant with written notice of the estimated amount of such fees and the reason for initiating such proceedings and Tenant shall have agreed in writing after receipt of Landlord written notice to pay its pro rata share of such fees, costs and disbursements prior to Landlord commencing such proceedings. If Tenant does not so agree, or Landlord does not seek its agreement, then Tenant shall pay only such fees, costs and disbursements incurred in connection with proceedings which actually reduce Real Property Taxes.

Real Property Taxes shall not include income, gift, franchise, transfer, inheritance or capital stock taxes, unless, due to a change in the method of taxation, any of such taxes is levied or assessed against Landlord in lieu of, or as a substitute (in whole or in part) for, any other charge which would otherwise constitute a part of Real Property Taxes. Landlord and Tenant acknowledge and agree that certain other buildings exist or encroach upon the Land, that Tenant shall have no liability as to any item of Real Property Taxes attributable or allocable to, or assessed against, buildings other than the

Building and that, except as set forth in Paragraph 4(c)(ii) hereof, Landlord's good faith determination of the proper allocation of any item of Real Property Taxes allocable to buildings other than the Building shall be binding on Landlord and Tenant. All Real Property Taxes which can be

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paid by Landlord in installments shall be paid by Landlord in the maximum number of installments permitted by law and not included as Real Property Taxes except in the year in which the tax or assessment is actually paid.

(j) The term "Rental" shall include the Basic Monthly Rental and the Monthly Storage Rental set forth in Paragraph J of the Summary of Lease Terms, all additional rent, and any other charges payable by Tenant to Landlord hereunder.

(k) The term "Storage Area" shall mean the Space in the basement of the Building designated by cross-hatching on the floor plan attached hereto as Exhibit A-1.

(l) The term "Tenant's Extra Improvements" shall mean those improvements in addition to Building Standard Improvements which are to be installed in the Premises by Tenant at its sole cost or using a tenant improvement allowance provided by Landlord.

(m) The term "Tenant's Percentage Share" shall mean the percentage figure specified in Paragraph F of the Summary of Lease Terms.

## 2. TERM.

(a) The term of this Lease shall commence and, unless ended sooner as herein provided, shall expire on the dates respectively specified in Paragraph I of the Summary of Lease Terms (respectively referred to hereinafter as the "Commencement Date" and the "Expiration Date"). Landlord and Tenant hereby agree to confirm the actual Commencement and Expiration Dates prior to the commencement of the Lease term by executing and delivering to each other counterparts of a Commencement Date Memorandum in the form of Exhibit C attached hereto, but the term of this Lease shall commence on the Commencement Date and end on the Expiration Date whether or not such amendment is executed.

(b) Tenant shall accept the Premises and the Storage Area "as is" on the Commencement Date. Landlord shall have no obligation to construct or install any improvements in the Premises or the Storage Area. Tenant acknowledges that Tenant's possession of the Premises and the Storage Area shall constitute Tenant's acknowledgment that the Premises and the Storage Area are in all respects in the condition in which Landlord is required to deliver the Premises and the Storage Area to Tenant under this Lease and that Tenant has examined the Premises and the Storage Area and is fully informed to Tenant's

satisfaction of the physical and environmental condition and the utility of the Premises and the Storage Area. Tenant acknowledges that Landlord, its agents and employees and other persons acting on behalf of Landlord have made no representation or warranty of any kind in connection with any matter relating to the physical

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or environmental condition, value, fitness, use or zoning of the Premises or the Storage Area upon which Tenant has relied directly or indirectly for any purpose, except as specifically set forth in this Lease. Landlord hereby agrees that if at any time during the term of this Lease the Storage Area is not suitable for Tenant's intended purpose as a result of any water leakage, flooding or any other weather condition, and Landlord is unable to repair the Storage Area to prevent the water leakage or flooding following written notice from Tenant and a reasonable period to repair the Storage Area, then Tenant shall have the option to terminate this Lease as to the Storage Area, whereupon all of Tenant's obligations under this Lease in connection with the Storage Area, including, without limitation, Tenant's obligation to pay the Monthly Storage Rental, shall automatically terminate, and Landlord and Tenant shall enter into an amendment to this Lease memorializing said termination.

### 3. RENTAL; SECURITY DEPOSIT.

(a) Tenant agrees to pay to Landlord as Basic Monthly Rental and Monthly Storage Rental for the Premises and the Storage Area the respective sums specified in Paragraph J of the Summary of Lease Terms. The Monthly Storage Rental shall be subject to increase in accordance with Paragraph 3(c) hereof.

(b) The Basic Monthly Rental and the Monthly Storage Rental shall be paid to Landlord, in advance, on or before the first day of each and every successive calendar month during the term hereof. In the event the term of this Lease commences on a day other than the first day of a calendar month, or ends on a day other than the last day of a calendar month, then the Basic Monthly Rental and the Monthly Storage Rental for the first and/or last fractional months of the term shall be appropriately prorated. All such prorations shall be made on the basis of a 360-day year consisting of twelve 30-day months.

(c) The Monthly Storage Rental payable pursuant to Paragraph 3(a) hereof shall be subject to increase as set forth in this Paragraph 3(c). Effective as of the Consumer Price Index (as hereinafter defined) rent adjustment date(s) specified in Paragraph K of the Summary of Lease Terms (a "CPI Adjustment Date"), the Monthly Storage Rental shall be the sum of (i) the Monthly Storage Rental for the immediately preceding month payable under Paragraph 3(a) hereof plus (ii) the product obtained by multiplying such Monthly Storage Rental by the percentage increase in the Consumer Price Index measured from the last month for which the Consumer Price Index is published immediately

preceding the Commencement Date to the last month for which the Consumer Price Index is published immediately preceding the CPI Adjustment Date in question. Notwithstanding the foregoing, in no event shall the Monthly Storage Rental after any CPI Adjustment Date be less than the Monthly Storage Rental for the month immediately preceding such CPI Adjustment Date. Landlord and Tenant each shall, promptly after any

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determination of the Monthly Storage Rental pursuant to this Paragraph 3(c), execute and deliver to the other a written amendment to this Lease which sets forth the Monthly Storage Rental, but such Monthly Storage Rental shall become effective whether or not such amendment is executed.

As used in this Lease, "Consumer Price Index" shall mean the Consumer Price Index for All Urban Consumers for the metropolitan area in or nearest which the Building is located, All Items, 1982-1984 equals 100, published by the United States Department of Labor, Bureau of Labor Statistics. If the comparison Consumer Price Index required for the calculation specified in Paragraph 3(c) hereof is not available on the CPI Adjustment Date in question, Tenant shall continue to pay the same amount of Monthly Storage Rental payable during the period immediately preceding the CPI Adjustment Date in question until the Consumer Price Index is available and the necessary calculation is made. As soon as such calculation is made, Tenant shall immediately pay to Landlord the amount of any underpayment of Monthly Storage Rental for the month or months that may have elapsed pending the calculation of the Monthly Storage Rental for the CPI Adjustment Date in question. If the federal government revises or ceases to publish the Consumer Price Index, Landlord may substitute any substantially equivalent official index published by the Bureau of Labor Statistics or its successors and Landlord shall use any appropriate conversion factors to accomplish such substitution. The substitute index shall thereafter constitute the "Consumer Price Index" hereunder.

(d) Rental shall be paid to Landlord without notice, demand, deduction or offset in lawful money of the United States in immediately available funds or by good check as described below at the office of Landlord at Landlord's address for notices specified in the Summary of Lease Terms, or to such other person or at such other place as Landlord from time to time may designate in writing. Payments made by check must be drawn either on a California financial institution or on a financial institution that is a member of the federal reserve system. All amounts of Rental, if not paid when due, shall bear interest from the due date until paid at an annual rate of interest (the "Interest Rate") equal to the lesser of (i) the maximum annual interest rate allowed by law on such due date for business loans (not primarily for personal, family or household purposes) not exempt from the usury law, or (ii) a rate equal to the sum of five (5) percentage points over the publicly announced reference rate (the "Reference Rate") charged on such due date by the San Francisco Main Office of Bank of America NT & SA (or any successor bank thereto) (or if there is no such publicly announced rate, the rate quoted by such bank in

pricing ninety (90) day commercial loans to substantial commercial borrowers). In addition, Tenant acknowledges that late payment by Tenant to Landlord of Rental will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such

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costs being extremely difficult to fix. Such costs include, without limitation, processing and accounting charges, and late charges that may be imposed on Landlord by the terms of any encumbrance and/or note secured by an encumbrance covering the Premises. Therefore, if any installment of Rental due from Tenant is not received within ten (10) days after Tenant receives written notice from Landlord of the amount past due and owing, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue Rental as a late charge; provided that, if Rental is not paid when due one (1) time during any calendar year during the term of this Lease, then thereafter for the remainder of such calendar year Tenant shall not be entitled to such notice and ten (10) day grace period, and such late charge shall be assessed on any Rental not paid by 5:00 p.m. on the date due. Commencing on the immediately following calendar year, the notice requirement described above shall be reinstated. The parties agree that this late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of late payment of Rental by Tenant. Acceptance of any late charge shall not constitute a waiver of Tenant's default with respect to the overdue amount, or prevent Landlord from exercising any of the other rights and remedies available to Landlord.

(e) On or before the Commencement Date, Tenant shall pay to Landlord (a) an amount equal to the Basic Monthly Rental and the Monthly Storage Rental for the first month of the term of this Lease, which amount Landlord shall apply to the Basic Monthly Rental and the Monthly Storage Rental for such first month, and (b) the amount of the security deposit specified in Paragraph L of the Summary of Lease Terms (the "Deposit"). Failure to pay either the Rental for the first month of the term of the Lease or the Deposit on or before the Commencement Date shall be deemed an Event of Default (as defined in Paragraph 18(a)) under the Lease. The Deposit shall be held by Landlord as security for the faithful performance by Tenant of all of the provisions of this Lease to be performed or observed by Tenant. If Tenant fails to pay any Rental, or otherwise defaults with respect to any provision of this Lease, Landlord may (but shall not be obligated to) use, apply or retain all or any portion of the Deposit for the payment of any Rental in default or for the payment of any other sum to which Landlord may become obligated by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer thereby. If Landlord so uses or applies all or any portion of the Deposit, Tenant shall within ten (10) days after demand therefor deposit cash with Landlord in an amount sufficient to restore the Deposit to the full amount thereof, and Tenant's failure to do so shall, at Landlord's option, be an Event of Default (as defined in Paragraph 18(a)) under this Lease. Landlord shall keep the Security Deposit separate from its general accounts in a money market account of its choosing ("Security Deposit Account") and shall remit any interest payable

thereunder to Tenant upon the Expiration Date or earlier termination of this Lease. If

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Landlord exhausts the Security Deposit in paying any sums specified under this Lease, Landlord may use any interest accrued in the Security Deposit Account to pay any sums remaining owing. If Tenant performs all of Tenant's obligations hereunder, the Deposit and the accrued interest, or so much thereof as has not theretofore been applied by Landlord, shall be returned to Tenant (or, at Landlord's option, to the last assignee, if any, of Tenant's interest hereunder, unless the assignment agreement specifically requires that the Security Deposit be returned to Tenant and Landlord shall have consented to such agreement in writing) at the expiration or sooner termination of the term hereof and after Tenant has vacated the Premises. Landlord's return of the Deposit and the accrued interest or any part thereof shall not be construed as an admission that Tenant has performed all of its obligations under this Lease. No trust relationship is created herein between Landlord and Tenant with respect to the Deposit.

4. TENANT'S SHARE OF OPERATING EXPENSES AND REAL PROPERTY TAXES.

(a) In addition to the Basic Monthly Rental and Monthly Storage Rental payable during the term of this Lease, Tenant shall pay to Landlord, as additional rent, Tenant's Percentage Share of (i) the amount, if any, by which Operating Expenses paid or incurred by Landlord in any calendar year subsequent to the Base Expense Year exceed the amount of Operating Expenses paid or incurred by Landlord during the Base Expense Year, and (ii) the amount, if any, by which Real Property Taxes paid or incurred by Landlord in any tax year (July 1 through June 30) subsequent to the Base Tax Year exceed the amount of Real Property Taxes paid or incurred by Landlord during the Base Tax Year. Notwithstanding the foregoing, if the Building is less than 100% occupied in any year during the term of this Lease, the variable costs included within Operating Expenses and Real Property Taxes for such year shall be adjusted, for purposes of the foregoing calculation, to the amount which they would have been if the Building had been 100% occupied. If it shall not be lawful for Tenant to reimburse Landlord for any increase in Real Property Taxes as defined herein, the Basic Monthly Rental payable to Landlord prior to the imposition of such increases in Real Property Taxes shall be increased to net Landlord the same net Basic Monthly Rental after imposition of such increases in Real Property Taxes as would have been received by Landlord prior to the imposition of such increases in Real Property Taxes.

(b) During December of each calendar year or as soon thereafter as practicable, Landlord shall give Tenant notice of its estimate of the amounts payable by Tenant pursuant to Paragraph 4(a) above for the succeeding calendar year. On or before the first day of each month during the succeeding calendar year, Tenant shall pay to Landlord, as additional rent, one



to deliver such notice to Tenant in December, Tenant shall continue to pay Tenant's Percentage Share of increases in Operating Expenses and Real Property Taxes on the basis of the prior year's estimate until the first day of the next calendar month after such notice is given, provided that on such date Tenant shall pay to Landlord the amount of such estimated adjustment payable to Landlord for prior months during the year in question, less any portion thereof previously paid by Tenant. If at any time it appears to Landlord that the amounts payable under this Paragraph 4(b) for the current calendar year will vary from Landlord's estimate, Landlord may, by giving written notice to Tenant, revise Landlord's estimate for such year, and subsequent payments by Tenant for such year shall be based on such revised estimate.

(c) (i) Within ninety (90) days after the close of each calendar year or as soon after such ninety (90) day period as practicable, Landlord shall deliver to Tenant a statement of the amounts payable under Paragraph 4(a) above for such calendar year (an "annual statement") and, subject to Paragraph 4(c)(ii), such statement shall be final and binding upon Landlord and Tenant. If on the basis of such statement Tenant owes an amount that is more than the estimated payments for such calendar year previously made by Tenant, Tenant shall pay the deficiency to Landlord within fifteen (15) days after delivery of the statement. If on the basis of such statement Tenant has paid to Landlord an amount in excess of the amounts payable under Paragraph 4(a) above for the preceding calendar year and no Event of Default shall have occurred and be continuing, then Landlord, at its option, shall either promptly refund such excess to Tenant or credit the amount thereof to the Basic Monthly Rental next becoming due from Tenant until such credit has been exhausted.

(ii) Notwithstanding anything to the contrary in this Lease, Tenant shall have the right, during the ninety (90) day period following delivery of an annual statement, to deliver a written request to Landlord to audit Landlord's records of Operating Expenses and Real Property Taxes ("Tenant's Audit Request"). Within the sixty (60) day period following Tenant's Audit Request (the "Audit Period"), Tenant shall have the right, at Tenant's sole cost, to review in Landlord's offices Landlord's records of Operating Expenses and Real Property Taxes for the subject calendar year. Such review shall be carried out only by regular employees of Tenant or by a major national or regional firm of certified public accountants, and not by any other third party. No such firm shall be compensated on a contingency or other incentive basis. If, as of the ninetieth (90th) day after delivery to Tenant of an annual statement, Tenant shall not have delivered to Landlord Tenant's Audit Request, then such annual statement shall be final and binding upon Landlord and Tenant, and Tenant shall have no further right to audit or object to such annual statement. If within the Audit Period, Tenant delivers to Landlord a written statement

specifying objections to such annual statement (an "objection statement"), then Tenant and Landlord shall meet to attempt to resolve such objection within thirty (30) days after delivery of the objection statement. If such objection is not resolved within such thirty (30) day period, then Tenant shall have the right, at Tenant's cost, to require that the dispute be submitted to binding determination by an independent certified public accountant ("CPA") approved by Landlord and Tenant. Landlord shall reimburse Tenant for the reasonable charges of the CPA in connection with such binding determination if, but only if, the CPA shall have determined that the aggregate amount of all Operating Expenses and Real Property Taxes payable by Tenant for the subject year in accordance with the annual statement exceeds one hundred five percent (105%) of the aggregate amount of all Operating Expenses and Real Property Taxes payable by Tenant for the subject year in accordance with the CPA's determination. Landlord and Tenant agree that such determination by a CPA shall be the exclusive method of resolving disputes under this Paragraph 4(c). If Tenant does not elect, by notice to Landlord within one hundred eighty-one (181) days after delivery of the annual statement, to require such binding determination, then the annual statement shall be final and binding. Notwithstanding that any such dispute remains unresolved, Tenant shall be obligated to pay Landlord the full amount claimed by Landlord as and when payable in accordance with this Paragraph 4(c), but Landlord shall reimburse Tenant any amount determined, in accordance with this Paragraph 4(c) (ii), to be an overpayment.

(d) If this Lease terminates on a day other than the last day of a calendar year, the amounts payable by Tenant under Paragraph 4(a) above with respect to the calendar year in which such termination occurs shall be prorated on the basis which the number of days from the commencement of such calendar year, to and including such termination date, bears to 360. The termination of this Lease shall not affect the obligations of Landlord and Tenant pursuant to Paragraph 4(c) above to be performed after such termination.

(e) It is the intention of Landlord and Tenant that the Basic Monthly Rental paid to Landlord throughout the term of this Lease shall be absolutely net of all increases, respectively, in Real Property Taxes over Real Property Taxes for the Base Tax Year and of Operating Expenses over Operating Expenses for the Base Expense Year, and the foregoing provisions of this Paragraph 4 are intended to so provide.

5. OTHER TAXES PAYABLE BY TENANT. Tenant shall reimburse Landlord upon demand for any and all taxes, but not including Real Property Taxes, payable by Landlord (other than net income, gift, franchise, transfer, inheritance or capital stock taxes) whether or not now customary or within the contemplation of the parties hereto:

(a) imposed upon, measured by or reasonably attributable to the cost or value of Tenant's equipment, furniture, fixtures and other personal property located in the Premises or by the cost or value of any leasehold improvements made in or to the Premises by or for Tenant, other than Building Standard Improvements made by Landlord, regardless of whether title to such improvements shall be in Tenant or Landlord;

(b) imposed upon or measured by the Basic Monthly Rental payable hereunder, including, without limitation, any gross income tax or excise tax levied by the City and County of San Francisco, the State of California, the federal government or any other governmental body with respect to the receipt of such rental to the extent such are not Real Property Taxes;

(c) imposed 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; or

(d) imposed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

In the event that it shall not be lawful for Tenant to so reimburse Landlord, the Basic Monthly Rental payable to Landlord under this Lease shall be revised to net Landlord the same income after imposition of any such tax upon Landlord as would have been received by Landlord hereunder prior to the imposition of any such tax.

6. USE. Tenant agrees to use the Premises for general office purposes which may include software engineering, diskette duplication, and packaging and shipping operations, and agrees not to use nor permit the use of the Premises or any part thereof for any other purpose. Tenant agrees not to do or permit to be done in or about the Premises, the Storage Area or the Building, nor to bring or keep or permit to be brought or kept in or about the Premises or the Building, anything which is prohibited by or will in any way conflict with any law, statute or governmental regulation now or hereafter in effect, or which is prohibited by the standard form of fire insurance policy, or which will in any way increase the existing rate of (or otherwise affect) fire or any other insurance on the Building or any of its contents, unless Tenant agrees to pay the cost of said increase. If any act or omission of Tenant results in any such increase in premium rates, Tenant shall pay to Landlord, as additional rent, upon demand the amount of such increase to the extent attributable to Tenant's acts or omissions. Tenant agrees not to do or permit to be done anything in, on or about the Premises, the Storage Area or the Building which will in any way obstruct or interfere with the rights of other tenants or occupants of the Building, or injure them, or use or allow the Premises or the Storage Area to be used for any unlawful

purpose. Tenant agrees not to cause, maintain or permit any nuisance in, on or about the Premises, the Storage Area or the Building, nor to use or permit to be used any loudspeaker or other device, system or apparatus which can be heard outside the Premises or the Storage Area without the prior written consent of Landlord nor to permit any objectionable odors, bright lights or electrical or radio interference which may annoy or interfere with the rights of other tenants of the Building or the public. Tenant agrees not to commit or suffer to be committed any waste in or upon the Premises or the Storage Area. The provisions of this Paragraph 6 are for the benefit of Landlord only and shall not be construed to be for the benefit of any tenant or occupant of the Building.

7. COMPLIANCE WITH LAWS/ENVIRONMENTAL MATTERS.

(a) Tenant agrees at its sole cost and expense to promptly comply with all laws, statutes, ordinances and governmental rules, regulations or requirements now or hereafter constituted affecting the Premises or the Storage Area, insofar as any thereof relates to or affects the condition, use or occupancy of the Premises or the Storage Area, excluding all obligations to alter or improve the Premises or the Storage Area which are necessitated due to reasons other than Tenant's improvements or particular use of the Premises or the Storage Area. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Tenant (whether Landlord be a party thereto or not) that Tenant has violated any such law, statute, ordinance or governmental rule, regulation, requirement, direction or provision, shall be conclusive of that fact as between Landlord and Tenant. If Tenant's use or operation of the Premises or the Storage Area or any of Tenant's equipment therein requires a governmental permit, license or other authorization or any notice to any governmental agency, Tenant shall promptly provide a copy thereof to Landlord. Tenant agrees not to violate any direction or occupancy certificate issued pursuant to law by any public officer and any covenants, conditions and restrictions recorded against the Real Property. Landlord warrants that, to its actual knowledge as of the date of this Lease, no notices from any governmental agency have been issued regarding the Real Property being in violation of any "environmental laws" (as hereinafter defined). Landlord warrants that to its actual knowledge as of the Commencement Date, it has not received any notices that the Real Property is not in compliance with applicable laws, including environmental laws. Landlord's "actual knowledge" as used in this Lease shall mean the actual knowledge of the principals of Landlord.

(b) Tenant shall not bring or keep, or permit to be brought or kept, in the Premises, in the Storage Area or in or on the Real Property any "hazardous substance" (as hereinafter defined). Tenant and Landlord shall not manufacture, generate, treat, handle, store or dispose of any hazardous substance in the Premises, in the Storage Area or in or on the Real Property,

except for normal and customary amounts of those hazardous substances typically used in general office use, including, without limitation, office and cleaning supplies, provided such substances are stored, used and disposed of in compliance with all environmental laws, or use the Premises or the Storage Area for any such purpose, or emit, release or discharge any hazardous substance into any air, soil, surface water or groundwater comprising the Premises or the Real Property, or permit any person using or occupying the Premises to do any of the foregoing. Tenant shall comply, and shall cause all persons using or occupying the Premises or the Storage Area to comply, with all environmental laws applicable to the Premises or the Storage Area, the use or occupancy of the Premises or the Storage Area or any operation or activity therein. Tenant shall indemnify, defend and hold Landlord harmless from and against any and all claims, judgements, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including but not limited to, reasonable attorneys' and consultants' fees) incurred by Landlord due to the presence of any hazardous substance on the Real Property to the extent resulting from the acts or omissions of Tenant, its employees, agents, representatives, contractors and/or invitees. Landlord shall indemnify, defend and hold Tenant harmless from and against any and all claims, judgements, damages, penalties, fines, liabilities, losses, suits, administrative proceedings and costs (including but not limited to, reasonable attorneys' and consultants' fees) incurred by Tenant due to the presence of any hazardous substance on the Real Property to the extent resulting from the acts or omissions of Landlord, its employees, agents, representatives, contractors and/or invitees; provided, however, that Landlord shall not be obligated to indemnify, defend and hold harmless Tenant from and against the acts or omission of third party unaffiliated with Landlord, when such acts or omissions are imputed to Landlord by operation of law or otherwise, or because Landlord is the record owner of the Building. In such event, the foregoing indemnity shall not apply. As used in this Lease, "hazardous substance" shall mean any substance or material that is described as a toxic, hazardous, corrosive, ignitable, flammable or reactive substance, waste or material or a pollutant or contaminant, or words of similar import, in any of the environmental laws, and includes asbestos, petroleum, petroleum products, polychlorinated biphenyls, radon gas, radioactive matter, and chemicals which may cause cancer or reproductive toxicity. As used in this Lease, "environmental laws" shall mean all federal, state and local laws, ordinances, rules and regulations now or hereafter in force, as amended from time to time, in any way relating to or regulating human health or safety, or industrial hygiene or environmental conditions, or protection of the environment, or pollution or contamination of the air, soil, surface water or groundwater.

(c) Tenant shall immediately furnish Landlord with any (i) notices received from any insurance company or govern-

mental agency or inspection bureau regarding any unsafe or unlawful conditions within the Premises or the Storage Area, and (ii) notices or other communications sent by or on behalf of Tenant to any agency relating to environmental laws or hazardous substances affecting the Premises.

(d) California law requires landlords to disclose to tenants the existence of certain hazardous substances. Accordingly, the existence of gasoline and other automotive fluids, asbestos containing materials, maintenance fluids, copying fluids and other office supplies and equipment, certain construction and finish materials, tobacco smoke, cosmetics and other personal items must be disclosed. Gasoline and other automotive fluids are found in the basement garage area of the Building. Cleaning, lubricating and hydraulic fluids used in the operation and maintenance of the Building are found in the utility areas of the Building not generally accessible to Building occupants or the public. Many Building occupants use copy machines and printers with associated fluids and toners, and pens, markers, inks, and office equipment that may contain hazardous substances. Certain adhesives, paints and other construction materials and finishes used in portions of the Building may contain hazardous substances. Although smoking is prohibited in the public areas of the Building, these areas may from time to time be exposed to tobacco smoke. Building occupants and other persons entering the Building from time to time may use or carry prescription and non-prescription drugs, perfumes, cosmetics and other toiletries, and foods and beverages, some of which may contain hazardous substances.

(e) The provisions of this Paragraph 7 are for the benefit of Landlord and Tenant only and shall not be construed to be for the benefit of any other tenant or occupant of the Building.

#### 8. ALTERATIONS; LIENS.

(a) Tenant agrees not to make or suffer to be made any alteration, addition or improvement to or of the Premises or the Storage Area (hereinafter referred to as "Alterations"), or any part thereof, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed; provided, however, that Landlord's consent shall not be required for Alterations which are not structural, do not affect the Building systems and do not affect the appearance of the exterior of the Building. For Alterations which require Landlord's consent and which involve engineering changes to the Premises or the Building, Tenant shall submit to Landlord written notice of its proposed Alterations, including all plans and specifications therefor. Landlord shall notify Tenant in writing of its approval or reasonable disapproval of such Alterations within thirty (30) days of receiving such notice. If Landlord does not indicate its approval or disapproval within such time period, Tenant shall send Landlord a second notice

regarding the Alterations, and if Landlord does not approve or reasonably disapprove the Alterations within ten (10) days of receiving this second notification, the Alterations shall be deemed approved by Landlord. For Alterations which require Landlord's consent and which do not involve engineering changes, Tenant shall submit to Landlord written notice of its proposed Alterations, including all plans and specifications therefor to the extent such plans and specifications are necessary. Landlord shall notify Tenant in writing of its approval or reasonable disapproval of such Alterations within twenty (20) days of receiving such notice. If Landlord does not indicate its approval or reasonable disapproval within such time period, Tenant shall send Landlord a second notice regarding the Alterations, and if Landlord does not approve or reasonably disapprove of the Alterations within ten (10) days of receiving this second notification, the Alterations shall be deemed approved by Landlord. In its approval of any Alteration, Landlord shall indicate to Tenant whether such approval is conditioned upon Tenant removing such Alteration upon the expiration or earlier termination of the Lease.

If Landlord consents to the making of any Alterations or if such consent is not required, the same shall be designed and constructed or installed by Tenant at its expense (including expenses incurred in complying with applicable laws, including laws relating to the handling and disposal of ACM). When Tenant submits its plans and specifications to Landlord for its approval, Tenant also shall submit the name of the general contractor Tenant desires to use to construct the Alterations. Landlord shall notify Tenant in writing of its approval or reasonable disapproval of such contractor within twenty (20) days of receiving such notice. If Landlord does not indicate its approval or reasonable disapproval of such contractor within such time period, Tenant shall send Landlord a second notice regarding the general contractor, and if Landlord does not approve or reasonably disapprove of such contractor within ten (10) days of receiving this second notification, the general contractor shall be deemed approved by Landlord. All Alterations shall be designed and constructed in compliance with all applicable codes, laws, ordinances, rules and regulations. The design and construction of any Alterations shall be performed in accordance with Landlord's applicable and reasonable rules, regulations and requirements, including the Asbestos Rules, to the extent such rules, regulations and requirements are available and a copy of same is provided to Tenant. Under no circumstances shall Landlord be liable to Tenant for any damage, loss, cost or expense incurred by Tenant on account of Tenant's plans and specifications, Tenant's contractors or subcontractors, design of any work, construction of any work, or delay in completion of any work. All sums due to such contractors, if paid by Landlord due to Tenant's failure to pay such sums when due and after written notice thereof to Tenant, shall bear interest payable to Landlord at the Interest Rate until fully paid.

Upon the expiration or earlier termination of this Lease, Tenant, at its expense, shall promptly remove any such Alterations made by Tenant and designated by Landlord to be so removed, repair any damage to the Premises caused by such removal and restore the area of the removal to a condition such that the Premises could be occupied by another tenant. Tenant shall use the general contractor designated by Landlord or any other construction professional reasonably approved by Landlord for such removal and repair. Notwithstanding anything to the contrary in this Lease, Tenant shall have no obligation to remove any Alterations existing as of the Commencement Date or any Alterations approved by Landlord during the term of this Lease unless such approval, when given, was expressly conditioned upon Tenant's removal of such Alteration upon the expiration or earlier termination of this Lease. Notwithstanding anything to the contrary in this Lease, Tenant shall be required to remove any alteration, addition or improvement to or of the Premises or the Storage Area made after the Commencement Date for which Tenant does not seek Landlord's prior written approval or for which Landlord conditioned its approval thereof upon removal of the Alteration upon the expiration or earlier termination of the Lease. Except for Alterations which cannot be removed without structural injury to the Premises, at any time Tenant may remove from the Premises, the Storage Area or the License Area (as defined in Exhibit D) any property of Tenant and any Alterations, trade fixtures, equipment, furniture or furnishings that Tenant installed in the Premises, the Storage Area or the License Area at any time, including prior to the Commencement Date, provided Tenant complies with the provisions of this Paragraph 8(a).

All trade fixtures, equipment, furniture, furnishings and personal property installed in the Premises, the Storage Area or the License Area at Tenant's expense ("Tenant's Property") shall at all times remain Tenant's property and Tenant shall be entitled to all depreciation, amortization and other tax benefits with respect thereto. Tenant shall be entitled to all insurance proceeds and condemnation awards and settlements payable with respect to Tenant's Property and any Alteration, trade fixtures, equipment, furniture and furnishings installed by Tenant in the Premises, the Storage Area or the License Area at any time, including prior to the Commencement Date. Landlord shall have no lien or other interest whatsoever in any item of Tenant's Property, or any portion thereof or interest therein located in the Premises or elsewhere, and Landlord hereby waives all such liens and interests. Within ten (10) days following Tenant's request, Landlord shall execute documents in a form reasonably acceptable to Landlord and Tenant to evidence Landlord's waiver of any right, title, lien or interest in Tenant's Property located in the Premises.

(b) Tenant agrees to keep the Premises and the Real Property free from any liens arising out of any work performed, materials furnished or obligations incurred by Tenant. Tenant

shall promptly and fully pay and discharge all claims on which any such lien



could be based. In the event that Tenant does not, within ten (10) days following the recording of notice of any such lien, cause the same to be released of record, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but not the 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 sums paid by Landlord for such purpose, and all expenses incurred by it in connection therewith, shall be payable to Landlord by Tenant, as additional rent, on demand, together with interest at the Interest Rate from the date such expenses are incurred by Landlord to the date of the payment thereof by Tenant to Landlord. 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, the Premises, the Building, or the Real Property, from mechanic's and materialmen's and like liens. Tenant shall give Landlord at least ten (10) days' prior written notice of the date of commencement of any construction on the Premises in order to permit the posting of such notices.

9. MAINTENANCE AND REPAIR.

(a) Excepting the requirements under the Lease relating to Landlord's repair obligations, by taking possession of the Premises and the Storage Area, Tenant accepts the Premises and the Storage Area as being in the condition in which Landlord is obligated to deliver the Premises and the Storage Area. Tenant, at its expense, shall at all times keep the Premises and the Storage Area and every part thereof and all equipment, fixtures and improvements therein in good and sanitary order, condition and repair, damage thereto by acts of God, casualties, and condemnation excepted, and Tenant waives all rights under, and benefits of, subsection 1 of Section 1932 and Sections 1941 and 1942 of the California Civil Code and under any similar law or ordinance now or hereafter in effect. Upon the expiration or sooner termination of this Lease, Tenant shall surrender the Premises and the Storage Area and (unless designated by Landlord to be removed or Tenant elected to remove in accordance with Paragraph 8 above) all Alterations thereto to Landlord in the same condition as when received, damage thereto by fire, the perils of the extended coverage endorsement, earthquake, ordinary wear and tear, acts of God, casualties, condemnation, and Alterations which Tenant is not required to remove, all excepted. It is agreed that Landlord has no obligation, and has made no promises, to alter, add to, remodel, improve, repair, decorate or paint the Premises or the Storage Area or any part thereof and that no representations respecting the condition of the Premises, the Storage Area, the Building or the Real Property have been made by Landlord to Tenant except as may be specifically set forth in this Lease. Landlord shall refurbish the common areas of the Building including, without limitation, the lobby on or before July 1, 1999. The scope of

such refurbishment shall be determined in Landlord's sole and absolute discretion. The cost of said refurbishment shall be at the Landlord's sole cost and expense and shall not constitute an Operating Expense under this Lease. No representation or warranty, express or implied, is made with respect to (i) the condition of the Premises, the Storage Area, or the Building, (ii) the fitness of the Premises or the Storage Area for Tenant's intended use, (iii) the degree of sound transfer within the Building, (iv) the absence of electrical or radio interference in the Premises or the Building, (v) the condition, capacity or performance of electrical or communications systems or facilities, or (vi) the absence of objectionable odors, bright lights or other conditions which may affect Tenant's use and enjoyment of the Premises, the Storage Area or the Building.

(b) Landlord agrees to make all necessary repairs to the structure (including the roof, exterior walls and foundation), the exterior, and the public and common areas of the Building and the building systems (including, without limitation, the mechanical, electrical, elevator, plumbing, sewer, heating and air conditioning systems to the extent such systems constitute base building systems as described on Exhibit E attached hereto (as opposed to systems relating to local distribution within the Premises)) therein, and to maintain the same in reasonably good order and condition. Any damage arising from the acts of Tenant, its agents, employees, contractors or invitees shall be repaired by Landlord at Tenant's sole expense. Tenant shall pay Landlord on demand the cost of any such repair. Notwithstanding anything to the contrary in this Lease, if Tenant provides written notice (or oral notice in the event of an emergency, such as damage to or destruction to or of a structural component, or any electrical, plumbing, or mechanical system of or in the Building or the Premises (including, but not limited to, damage to the roof)) to Landlord of an event or circumstances which requires the action of Landlord with respect to repair and/or maintenance, and Landlord fails to commence to perform such action within a reasonable period of time, given the circumstance, after the receipt of such notice, but in any event not later than fifteen (15) days after receipt of such notice, and thereafter to diligently prosecute such action to completion, then, Tenant shall send Landlord a second notice regarding Tenant's intent to perform such repair (except in the event of an emergency, in which case no second notice is required and Tenant may commence the required repairs immediately upon Landlord's failure to commence such repairs within a reasonable period of time given the emergency nature of the repairs), and if Landlord does not respond within ten (10) days of receiving this second notification, Tenant shall be entitled to reimbursement by Landlord of Tenant's reasonable costs and expenses in making such repair, plus interest at the Interest Rate specified in Paragraph 3(d) hereof. In the event Tenant undertakes such repairs, and such repairs will affect the building systems or the structure of the Building, Tenant shall use only those

contractors used by Landlord in the Building for repairs to such systems unless

such contractors are unwilling or unable to perform, or timely perform, such repairs, in which event Tenant may use the services of any other qualified contractor which normally and regularly performs similar work in comparable buildings in the "Multimedia Gulch" area of the South of Market District of San Francisco. Further, if Landlord does not deliver a detailed written objection to Tenant within thirty (30) days after receipt of an invoice by Tenant of its costs of repairs which Tenant claims should have been made by Landlord, and if such invoice from Tenant sets forth a reasonably particularized breakdown of its costs and expenses in connection with taking such action on behalf of Landlord, then it shall be deemed that Landlord agrees with the cost and expenses incurred by Tenant and shall thereafter be obligated to reimburse Tenant for such costs and expenses, with interest thereon at the Interest Rate. If Landlord fails to so reimburse Tenant therefor, Tenant may bring an action in a court of appropriate jurisdiction to recover such sum from Landlord. Landlord agrees to maintain the Real Property in a manner comparable to that of other first class office buildings in the "Multimedia Gulch" area of the South of Market District of San Francisco. Landlord further agrees to have a qualified engineer who has knowledge of the Building and can work independent of Tenant's employees on call twenty-four (24) hours a day, seven (7) days a week.

10. SERVICES.

(a) Subject to the terms of this Paragraph 10 and subject to applicable laws, regulations and rules of public utilities, Landlord shall furnish to the Premises water, electrical power, gas, heating and air conditioning, elevator service and plumbing services suitable for Tenant's use of the Premises pursuant to Paragraph 6 hereof, twenty-four hours per day, seven (7) days per week, or during such other period as may be prescribed by any applicable policies or regulations of any utility or governmental agency; and basic janitorial service on weekdays (excluding union holidays). Unless otherwise specifically provided in this Lease, all means of distribution of all utilities within the Premises shall be supplied by Tenant at its expense, and Tenant shall pay the cost of water, gas, electricity, sewerage and other utilities. Landlord shall install, or cause Tenant to install, prior to the Commencement Date, at Tenant's expense, a separate meter in the Premises for electricity of a design and type to be reasonably approved by Landlord. Tenant shall pay the cost of janitorial services to the Premises provided by the Landlord. Tenant shall pay the cost of chilled water that Landlord supplies to the Premises for air conditioning. Tenant shall pay such janitorial and utilities costs within fifteen (15) days after delivery of invoices therefor.

Tenant agrees that at all times it will cooperate fully with Landlord and abide by all regulations and requirements that

Landlord may prescribe for the proper functioning and protection of the Building heating, ventilating and air conditioning systems. Landlord shall not be liable

for and Tenant shall not be entitled to any abatement or reduction of Rental by reason of Landlord's failure to furnish any of the foregoing or any other utilities or services when such failure is caused by accident, breakage, repairs, strikes, lockouts or other labor disturbances or disputes of any character, by the limitation, curtailment, rationing or restrictions on use of electricity, gas or any form of energy, or by any other cause, similar or dissimilar, beyond the reasonable control of Landlord. No such failure and no interruption of utilities or services from any cause whatsoever shall constitute an eviction of Tenant, constructive or otherwise, or impose upon Landlord any liability whatsoever, including, but not limited to, liability for consequential damages or loss of business by Tenant. Tenant hereby waives the provisions of California Civil Code Section 1932(1) or any other applicable existing or future law, ordinance or governmental regulation permitting the termination of this Lease due to such failure or interruption. Landlord shall not be liable under any circumstances for injury to or death of any person or damage to or destruction of property, however occurring, through or in connection with or incidental to the furnishing of or the failure to furnish any of the foregoing utilities or services or any other utilities or services. Landlord agrees to meet with Tenant to attempt to resolve any issues or problems Tenant may have with the janitorial service or any other services provided to Tenant pursuant to this Paragraph 10.

(b) Landlord makes no representation to Tenant regarding the adequacy or fitness of the heating, air conditioning or ventilation equipment in the Building to maintain temperatures that may be required for, or because of, any of Tenant's equipment which uses other than the fractional horsepower normally required for office equipment, and Landlord shall have no liability for loss or damage suffered by Tenant or others in connection therewith. Tenant agrees it will not, without the written consent of Landlord, use any equipment, apparatus or device in the Premises which will, individually or in the aggregate, in any way cause the amount of electricity, water or heating, ventilation or air conditioning supplied to the Premises to exceed Tenant's Percentage Share of the design capacity of the Building's systems. Tenant covenants that at all times its use of electric current shall never exceed the capacity of the feeders, risers or electrical installations of the Building. The costs to repair any damage Tenant causes to the base building systems due to Tenant's use of such systems beyond their design capacity shall be payable to Landlord within ten (10) days of submission of a statement setting forth such costs. Landlord shall provide Tenant with information regarding the capacity of such systems on or before the Commencement Date. Landlord shall not, in any way, be liable or responsible to Tenant for any loss or damage or expense which Tenant may incur or sustain if, for any reasons beyond Landlord's reasonable

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control, either the quantity or character of electric service is changed or is no longer available or suitable for Tenant's requirements. If submetering of electricity in the Building will not be permitted under future laws or regulations, the Base Monthly Rental will then be equitably adjusted to include

an additional payment to Landlord reflecting the cost to Landlord for furnishing electricity to the Premises.

(c) Any amounts which Tenant is required to pay pursuant to this Paragraph 10 shall constitute additional rent.

(d) In the event that Landlord, at Tenant's request, provides services to Tenant that are not otherwise required to be provided in this Lease, Tenant shall pay Landlord's reasonable charges for such services (including, without limitation, Landlord's then current administrative fee therefor) upon billing therefor provided, prior to providing such service, Landlord delivers to Tenant a written estimate of the cost of such service and Tenant delivers a written notice to Landlord stating that it agrees to pay for the cost of such service. Any such request for extra services shall be made not less than one (1) business day in advance.

(e) In the event any governmental authority having jurisdiction over the Real Property for the Building promulgates or revises any law, ordinance or regulation or building, fire or other code or imposes mandatory or voluntary controls or guidelines on Landlord and the Real Property or the Building relating to the use or conservation of energy or utilities or the reduction of automobile or other emissions (collectively "Controls") or in the event Landlord is required or elects to make alterations to the Real Property or the Building in order to comply with such mandatory or voluntary Controls, Landlord may, in its sole discretion, comply with such Controls or make such alterations to the Real Property or the Building related thereto; provided, however, that Landlord shall only comply with such voluntary controls if Comparable Landlords are generally complying with such controls. Such compliance and the making of such alterations shall not constitute an eviction of Tenant, constructive or otherwise, or impose upon Landlord any liability whatsoever, including, but not limited to, liability for consequential damages or loss of business by Tenant.

#### 11. ACCESS CONTROL.

(a) Landlord shall arrange for a security guard to be on duty in the lobby of the Building 24 hours per day, seven days per week. Tenant shall pay the cost of such security guard as additional rent within fifteen (15) days after delivery of invoices therefor. Notwithstanding anything to the contrary in this Lease, Tenant shall have the right to approve of the person and/or entity selected by Landlord to provide security services to the Premises, which approval shall not be unreasonably withheld. Landlord shall have the right from time to time to

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adopt such policies, procedures and programs as it shall, in Landlord's reasonable discretion, deem necessary or appropriate for the security of the Building, and Tenant shall cooperate with Landlord in the enforcement of, and

shall comply with, the policies, procedures and programs adopted by Landlord insofar as the same pertain to Tenant, its agents, employees, contractors and invitees. Landlord agrees to meet with Tenant to resolve any issues or problems Tenant may have with the security services. Landlord further agrees to consult with Tenant regarding any changes in security policies, procedures and programs that may adversely affect the security of the Premises in Landlord's reasonable opinion.

(b) In no event shall Landlord be liable for damages resulting from any error with regard to the admission to or the exclusion from the Building of any person. In the case of invasion, mob, riot, public demonstration or other circumstances rendering such action advisable in Landlord's opinion, Landlord reserves the right to prevent access to the Building during the continuance of the same by such action as Landlord may deem appropriate, including closing doors.

(c) In the event of any picketing, public demonstration or other threat to the security of the Building and to the extent attributable to Tenant, Tenant shall reimburse Landlord for any actual and reasonable costs incurred by Landlord in connection with such picketing, demonstration or other threat in order to protect the security of the Building, and Tenant shall indemnify and hold Landlord harmless from and protect and defend Landlord against any and all claims, demands, suits, liability, damage or loss and against all costs and expenses, including reasonable attorneys' fees incurred in connection therewith, arising out of or relating to any such picketing, demonstration or other threat to the extent attributable to Tenant. Tenant agrees not to employ any person, entity or contractor for any work in the Premises (including moving Tenant's equipment and furnishings in, out or around the Premises) whose presence may give rise to a labor or other disturbance in the Building and, if necessary to prevent such a disturbance in a particular situation, Landlord may require Tenant to employ union labor for the work.

## 12. ASSIGNMENT AND SUBLETTING.

(a) Restriction on Transfers. Tenant shall not, either voluntarily or by operation of law, (i) assign or transfer this Lease or any interest herein, (ii) sublet the Premises, or any part thereof, or (iii) enter into a license agreement or other arrangement whereby the Premises, or any portion thereof, are held or utilized by another party (each of the foregoing defined herein as a "Transfer"), without the express prior written consent of Landlord, which consent Landlord shall not unreasonably withhold. Any such act (whether voluntary or involuntary, by operation of law or otherwise)

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without the consent of Landlord pursuant to the provisions of this Paragraph 12 shall, at Landlord's option, be void and/or constitute an Event of Default (as defined in Paragraph 18(a)) under this Lease. Consent to any Transfer shall neither relieve Tenant of the necessity of obtaining Landlord's consent to any future Transfer nor relieve Tenant from any liability under this Lease.

By way of example and without limitation, the failure to satisfy any of the following conditions or standards shall be deemed to constitute sufficient grounds for Landlord to refuse to grant its consent to the proposed Transfer.

(1) The proposed Transferee must expressly assume all of the provisions, covenants and conditions of this Lease on the part of Tenant to be kept and performed as such provisions, covenants and condition relate to that portion of the Premises to be occupied by the proposed Transferee.

(2) The proposed Transferee must satisfy Landlord's then current credit and other standards for tenants of the Building (taking into account Tenant's continuing liability under this Lease and taking into account whether or not Tenant is continuing in occupancy of a material portion of the Premises) and, in Landlord's reasonable opinion, have the financial strength and stability to perform all of the obligations of the Tenant under this Lease (as they apply to the transferred space) as and when they fall due.

(3) The proposed Transferee must be reasonably satisfactory to Landlord as to business reputation.

(4) The proposed use of the Premises by the proposed Transferee must be, in Landlord's reasonable opinion: (a) lawful; (b) appropriate to the location and configuration of the Premises; (c) unlikely to cause a material increase in insurance premiums for insurance policies applicable to the Building; (d) absent any new tenant improvements that Landlord would be entitled to disapprove pursuant to Paragraph 8 hereof; (e) unlikely to create any materially increased burden in the operation of the Building, or in the operation of any of its facilities or equipment, unless Tenant agrees to pay the increased cost therefor; and (f) unlikely to impair the dignity, reputation or character of the Building.

(5) The proposed use of the Premises must not result in the division of any full floor of the Premises into more than three (3) separate leased premises or tenant spaces, and Tenant must tender to Landlord as an additional security deposit the estimated amount to restore the Premises to no more than two (2) separate leased premises or tenant spaces if the proposed division constitutes three (3) or more such spaces.

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(6) At the time of the proposed Transfer, an Event of Default (as defined in Paragraph 18(a) below) shall not have occurred and be

continuing, and no event may have occurred that with notice, the passage of time, or both, would become a material Event of Default.

(7) The proposed Transferee shall not be a governmental entity or other entity that holds any exemption from the payment of ad valorem or other taxes which would prohibit Landlord from collecting from such Transferee any amounts otherwise payable under this Lease.

(8) The proposed Transferee shall not be a then present tenant or affiliate or subsidiary of a then present tenant in the Building unless there is no other suitable space available in the Building.

(9) Landlord shall not be negotiating with, and shall not have at any time within the past thirty (30) days negotiated with, the proposed Transferee for space in the Building (unless Landlord, in its reasonable judgment, believes that it is unlikely that any further discussions between Tenant and such proposed Transferee will lead to a lease transaction).

(b) Landlord's Termination Right. Except in the event of a Permitted Transfer (as defined below), Landlord shall have no obligation to consent or consider granting its consent to any proposed Transfer unless Tenant has first delivered to Landlord a written notice regarding such Transfer, which notice shall include the base rent and other economic terms of the proposed Transfer, the date upon which Tenant desires to effect such Transfer and all of the other material terms of the proposed Transfer ("Tenant's Offer"). Landlord shall have the right, by notice to Tenant within fifteen (15) days after receipt of Tenant's Offer, to terminate this Lease (or, in the case of a sublease of less than the entire Premises, terminate this Lease as to the portion of the Premises to be sublet), which termination shall be effective as of the date on which the intended assignment or sublease would have been effective if Landlord had not exercised such termination right. If Landlord elects to terminate this Lease in whole or in part, as the case may be, then from and after the date of such termination, Landlord and Tenant each shall have no further obligation to the other under this Lease with respect to the Premises (or the applicable portion thereof) except for matters occurring or obligations arising hereunder prior to the date of such termination. If Landlord does not respond to Tenant's Offer within such fifteen (15) day period, Tenant may enter into such Transfer with any bona fide independent third-party Transferee (as defined in Paragraph 12(c) below) within one hundred eighty (180) days of the end of such fifteen (15) day period, so long as such Transfer is for the same base rent set forth in Tenant's Offer and such Transfer otherwise contains terms not more than

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five percent (5%) more favorable economically to the Transferee than the terms stated in Tenant's Offer, taking into account all rent concessions, tenant improvements, and any other terms which have an economic impact on the Transfer; provided, however, that the prior written approval of Landlord for such Transfer



must be obtained, and the other provisions of this Paragraph 12 must be complied with, all in accordance with this Paragraph 12. Landlord's foregoing right of termination shall continue throughout the entire term of this Lease. Notwithstanding the foregoing, Landlord shall only have the right to terminate the Lease (in whole or as to the portion of the Premises to be sublet, as the case may be) pursuant to this Paragraph 12(b) if the proposed Transfer is for one entire floor or more of the Premises and for at least ninety-five percent (95%) of the remaining term of the Lease.

(c) Landlord's Approval Process. Except in the event of a Permitted Transfer, Tenant shall, in each instance of a proposed Transfer, give written notice to Landlord at least forty-five (45) days prior to the effective date of any proposed Transfer, specifying in such notice (i) the nature of the proposed Transfer, (ii) the portion of the Premises to be transferred, (iii) the intended use of the transferred Premises, (iv) all economic terms of the proposed Transfer, (v) the effective date thereof, (vi) the identity of the transferee under the proposed Transfer (the "Transferee"), (vii) current financial statements of the Transferee, and (viii) a description of the business of the Transferee (collectively, "Tenant's Notice"). Tenant shall also promptly furnish Landlord with any other information reasonably requested by Landlord relating to the proposed Transfer or the proposed Transferee. Within twenty (20) days after receipt by Landlord of Tenant's Notice (and any additional information and data reasonably requested by Landlord within five (5) business days of such notice), Landlord shall notify Tenant of its determination to either (i) consent to the proposed Transfer, or (ii) refuse to consent to such proposed Transfer. If Landlord does not respond to Tenant's Notice within such twenty (20) day period, Tenant shall deliver to Landlord a second notice. If Landlord does not approve or reasonably disapprove the proposed Transfer within five (5) days after receipt of such second notice, Landlord shall be deemed to have consented to the proposed Transfer.

(d) Consideration for Transfer. Except in the event of a Permitted Transfer, fifty percent (50%) of all (i) consideration paid or payable by Transferee to Tenant as consideration for any such Transfer, and (ii) rents received in connection with the Transfer by Tenant from Transferee in excess of the sum of the Rental payable by Tenant to Landlord under this Lease, plus the value of any Alterations or any special improvements made to the Premises by Tenant for such proposed Transferee (not to exceed the improvement allowance that would be provided to a comparable tenant by Comparable Landlords), plus any brokerage commissions (not to exceed prevailing market rates), reasonable attorneys' fees and other professional fees

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in connection with the proposed Transfer, shall be paid by Tenant to Landlord immediately upon receipt thereof by Tenant. If there is more than one sublease under this Lease, the amounts (if any) to be paid by Tenant to Landlord pursuant to the preceding sentence shall be separately calculated for each sublease and amounts due Landlord with regard to any one sublease may not be offset against

rental and other consideration pertaining to or due under any other sublease. Upon Landlord's request and after an Event of Default has occurred and is continuing, Tenant shall assign to Landlord all amounts to be paid to Tenant by any Transferee and shall direct such Transferee to pay the same directly to Landlord.

If this Lease is assigned, whether or not in violation of the terms of this Lease, Landlord may collect rent from the assignee. If the Premises or any part thereof is sublet, Landlord shall, upon an Event of Default by Tenant hereunder, collect rent from the subtenant. In either event, Landlord may apply the amount collected from the assignee or subtenant to Tenant's monetary obligations hereunder. Neither Landlord's collection of rent from a Transferee nor any course of dealing between Landlord and any Transferee shall constitute or be deemed to constitute Landlord's consent to any Transfer.

(e) Permitted Transfers. Notwithstanding anything to the contrary in this Lease, Tenant may, without Landlord's prior written consent, sublet any or all of the Premises or assign the Lease on such terms and conditions as Tenant may elect to: (i) a subsidiary or corporation or other entity controlling, controlled by or under common control with Tenant; (ii) a successor corporation related to Tenant by merger, consolidation, nonbankruptcy reorganization, or government action; or (iii) a purchaser of substantially all of Tenant's assets ((i), (ii) and (iii) above shall be referred to as a "Permitted Transfer"), provided Landlord receives not less than ten (10) days' prior written notice of such transfer. For the purpose of this Lease, any sale or transfer of Tenant's capital stock, through any national market system or public exchange, shall not be deemed an assignment, subletting, or any other transfer of the Lease or the Premises.

(f) Documentation. Tenant agrees that any instrument by which Tenant assigns this Lease or any interest therein or sublets or otherwise Transfers all or any portion of the Premises shall expressly provide that the Transferee may not further assign this Lease or any interest therein or sublet the sublet space without Landlord's prior written consent (which consent shall be subject to the provisions of this Paragraph 12), and that the Transferee will comply with all of the provisions of this Lease and that Landlord may enforce the Lease provisions directly against such Transferee. No permitted subletting by Tenant shall be effective until there has been delivered to Landlord a counterpart of the sublease in which the subtenant agrees to be and remain jointly and severally liable

with Tenant for the payment of rent pertaining to the sublet space and for the performance of all of the terms and provisions of this Lease pertaining to the sublet space; provided, however, that the subtenant shall be liable to Landlord for rent only in the amount set forth in the sublease. No permitted assignment

shall be effective unless and until there has been delivered to Landlord a counterpart of the assignment in which the assignee assumes all of Tenant's obligations under this Lease arising on or after the date of the assignment. The failure or refusal of a subtenant or assignee to execute any such instrument shall not release or discharge the subtenant or assignee from its liability as set forth above.

(g) Options Personal to Original Tenant. Except in the event of a Permitted Transfer, if Landlord consents to a Transfer hereunder and this Lease contains any renewal options, expansion options, rights of first refusal, rights of first negotiation or any other rights or options pertaining to additional space in the Building, such rights and/or options shall not run to the Transferee, it being agreed by the parties hereto that any such rights and options are personal to the original Tenant named herein and any transferee in the event of a Permitted Transfer and may not be transferred.

(h) Encumbrance of Lease. Notwithstanding any provision of this Lease to the contrary, Tenant shall not mortgage, encumber or hypothecate this Lease or any interest herein without the prior written consent of Landlord, which consent may be withheld in Landlord's sole and absolute discretion. Any such act without the prior written consent of Landlord (whether voluntary or involuntary, by operation of law or otherwise) shall, at Landlord's option, be void and/or constitute an Event of Default under this Lease.

(i) No Merger. The voluntary or other surrender of this Lease or of the Premises by Tenant or a mutual cancellation of this Lease shall not work a merger, and at the option of Landlord any existing subleases may be terminated or be deemed assigned to Landlord in which latter event the subleases or subtenants shall become tenants of Landlord.

(j) Landlord's Costs. Except in the event of a Permitted Transfer, Tenant shall pay to Landlord the amount of Landlord's cost of processing each proposed Transfer (including, without limitation, attorneys' and other professional fees, and the cost of Landlord's administrative, accounting and clerical time; collectively "Processing Costs") not to exceed in the aggregate three thousand dollars (\$3,000.00) per Transfer, and the amount of all direct and indirect expenses incurred by Landlord arising from the assignee or sublessee taking occupancy of the subject space (including, without limitation, costs of freight elevator operation for moving of furnishings and trade fixtures, security service, janitorial and cleaning service, and rubbish removal service).

13. WAIVER; INDEMNIFICATION. Neither Landlord nor Landlord's agents, nor any shareholder, constituent partner or other owner of Landlord or any agent of Landlord, nor any contractor, officer, director or employee of any thereof shall be liable to Tenant and Tenant waives all claims against Landlord and such

other persons for any injury to or death of any person or for loss of use of or damage to or destruction of property in or about the Premises, the Storage Area or the Building by or from any cause whatsoever, including without limitation, earthquake or earth movement, gas, fire, oil, electricity or leakage from the roof, walls, basement or other portion of the Premises, the Storage Area or the Building, except to the extent caused by the gross negligence or willful misconduct of Landlord, Landlord's agents, the shareholders, constituent partners and/or other owners of Landlord or any agent of Landlord, and all contractors, officers, directors and employees of any thereof (collectively, "Indemnitees"). Tenant agrees to indemnify and hold the Indemnitees and each of them, harmless from and to protect and defend each Indemnitee against any and all claims, demands, suits, liability, damage or loss and against all costs and expenses, including reasonable attorneys' fees incurred in connection therewith, (a) arising out of any injury or death of any person or damage to or destruction of property occurring in, on or about the Premises or the Storage Area, from any cause whatsoever, except to the extent caused by the gross negligence or willful misconduct of such Indemnitee, or (b) occurring in, on or about any facilities (including without limitation elevators, stairways, passageways or hallways) the use of which Tenant has in common with other tenants, or elsewhere in or about the Building or in the vicinity of the Building, to the extent such claim, injury or damage is caused by the act, neglect, default, or omission of any duty by Tenant, its former or current agents, contractors, employees, invitees, or subtenants or other persons in or about the Building by reason of Tenant's occupancy of the Premises, or otherwise by any conduct of any of said persons in or about the Premises, the Storage Area or the Real Property, or (c) arising from any failure of Tenant to observe or perform any of its obligations hereunder. If any action or proceeding is brought against any of the Indemnitees by reason of any such claim or liability, Tenant, upon notice from Landlord, covenants to resist and defend at Tenant's sole expense such action or proceeding by counsel reasonably satisfactory to Landlord. The provisions of this Paragraph shall survive the termination of this Lease with respect to any claims or liability occurring prior to such termination. Notwithstanding anything to the contrary in this Lease, Landlord shall not be indemnified for, and shall indemnify, defend, protect and hold harmless Tenant from, all losses, damages, liabilities, judgments, actions, claims, attorneys' fees, consultants' fees, payments, costs and expenses to the extent arising from the gross negligence or willful misconduct of the Indemnitees.

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14. INSURANCE.

(a) At Tenant's expense, Tenant shall procure, carry and maintain in effect throughout the term of this Lease, in a form acceptable to Landlord and with such insurance companies as are acceptable to Landlord (which companies shall have a Best's rating of A-X or better), the following insurance coverage:

(i) Commercial general liability insurance, on an occurrence basis, with limits in an amount not less than \$5,000,000 combined single limit per occurrence, for claims or losses arising out of or resulting from personal injury (including bodily injury), death and/or property damage sustained or alleged to have been sustained by any person for any reason on the Premises or in the Storage Area, for liability arising out of or resulting from Tenant's covenant in Paragraph 13 to indemnify Landlord and all other Indemnities, its agents and employees, and for contractual liability;

(ii) All Risk Replacement Cost insurance with an agreed amount endorsement upon property of every description and kind owned by Tenant and located in the Premises and for Tenant's Extra Improvements and Alterations in an amount equal to 100% of the full replacement value thereof; and

(iii) Workers' compensation insurance, in accordance with applicable law.

(b) Not more often than every year and upon not less than sixty (60) days' prior written notice, Landlord, in its reasonable discretion, may require Tenant to increase the insurance limits set forth in Paragraphs 14(a)(i) and 14(a)(ii) above to amounts not in excess of insurance limits generally required by Comparable Landlords for comparable tenancies.

(c) All policies of liability insurance described in Paragraph 14(a)(i) of this Lease so obtained and maintained shall be carried in the name of Tenant, name Landlord and Landlord's designated agents as additional insureds, and shall provide that the insurance policy so endorsed will be the primary insurance providing coverage for Landlord, and contain a cross-liability endorsement stating that the rights of insureds shall not be prejudiced by one insured making a claim or commencing an action against another insured. Any other liability insurance maintained by Landlord shall be excess and non-contributing. At Landlord's election, such policies described in Paragraph 14(a)(i) shall name the holder of any Superior Interest or any other interested party as an insured party under a standard mortgagee endorsement.

(d) All insurance policies required under this Lease shall provide that the insurer shall not cancel, reduce, modify or fail to renew such coverage without thirty (30) days' prior written notice to Landlord. Tenant shall deliver certificates

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of all insurance required hereunder upon the commencement of the term of this Lease. In the event Tenant does not comply with the requirements of this Paragraph 14, Landlord may, at its option and at Tenant's expense, purchase such insurance coverage to protect Landlord. The cost of such insurance shall be paid to Landlord by Tenant, as additional rent, immediately upon demand therefor,

together with interest at the Interest Rate until paid.

(e) Notwithstanding anything to the contrary in this Lease, the parties release each other, and their respective authorized representatives, agents, employees, successors, assignees and subtenants, from any claims for loss or damage that are caused by or result from perils insured under any insurance policies carried by the parties in force at the time of any such damage which is required to be insured against under this Lease, or which would normally be covered by the standard form of "all risk" casualty insurance, without regard to the negligence or willful misconduct of the entity so released. Each party shall cause each insurance policy obtained by it to provide that the insurer waives all right of recovery by way of subrogation against either party in connection with any loss or damage covered by the policy. Neither party shall be liable to the other for any loss or damage covered by the insured risks under any insurance policy maintained by either party or required by this Lease.

15. PROTECTION OF LENDERS.

(a) This Lease shall be subject and subordinate at all times to all ground or underlying leases which may now or hereafter exist affecting the Building or the Land, or both, and to the lien of any mortgage or deed of trust in any amount or amounts whatsoever now or hereafter placed on or against the Building or the Land, or both, or on or against Landlord's interest or estate therein (such mortgages, deeds of trust and leases are referred to herein, collectively, as "Superior Interests"), all without the necessity of any further instrument executed or delivered by or on the part of Tenant for the purpose of effectuating such subordination. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver, upon demand, such further reasonable instruments evidencing such subordination of this Lease to any such Superior Interest as may be required by Landlord provided the Holder of such Superior Interest agrees in writing (i) that this Lease shall not be terminated so long as an Event of Default has not occurred and is not continuing and (ii) to recognize all of Tenant's rights, interests and options under this Lease. Landlord shall make reasonable efforts to provide Tenant with a non-disturbance agreement executed by the holder of any such Superior Interest on or prior to the Commencement Date.

(b) Notwithstanding the foregoing, in the event of a foreclosure of any such mortgage or deed of trust or of any

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other action or proceeding for the enforcement thereof, or of any sale thereunder, this Lease shall not be terminated or extinguished, nor shall the rights and possession of Tenant hereunder be disturbed, if no Event of Default then exists under this Lease, and Tenant shall attorn to the person who acquires Landlord's interest hereunder through any such mortgage or deed of trust.

(c) Within ten (10) days after Landlord's written request, Tenant shall deliver to Landlord, or to any actual or prospective holder of a Superior Interest ("Holder") that Landlord designates, such publicly available financial statements as are reasonably required by such Holder to verify the financial condition of Tenant (or any assignee, subtenant or guarantor of Tenant). Tenant represents and warrants to Landlord and such Holder that each financial statement delivered by Tenant shall be accurate in all material respects as of the date of such statement. All financial statements shall be confidential and used only for the purposes stated herein.

(d) If Landlord is in default, Tenant will accept cure of any default by any Holder whose name and address shall have been furnished to Tenant in writing. Tenant may not exercise any rights or remedies for Landlord's default unless Tenant gives notice thereof to each such Holder and the default is not cured within thirty (30) days thereafter or such greater time as may be reasonably necessary to cure such default. A default which cannot reasonably be cured within said 30-day period shall be deemed cured within said period if work necessary to cure the default is commenced within such time and proceeds diligently thereafter until the default is cured.

(e) If any prospective Holder should require, as a condition of any Superior Interest, a modification of the provisions of this Lease, Tenant shall approve and execute any such modifications promptly after request, provided no such modification shall relate to the Rental payable hereunder, Tenant's parking rights hereunder, the length of the term hereof or Tenant's Option to Extend such term, or otherwise materially alter the rights or obligations of Landlord or Tenant hereunder.

16. ENTRY BY LANDLORD.

(a) Landlord reserves, and shall at all times have, upon reasonable written notice to Tenant of not less than twenty-four (24) hours (except no notice shall be required in the event of an emergency), the right to enter the Premises to inspect them; to supply janitorial service and any other service to be provided by Landlord hereunder; to submit the Premises to prospective purchasers or mortgagees at any time, or to prospective tenants in the last twelve (12) months of the Lease term; to post notices of nonresponsibility; and to alter, improve or repair the Premises and any portion of the Building as permitted or provided hereunder, all without abatement of

Rental; and may erect scaffolding and other necessary structures in or through the Premises where reasonably required by the character of the work to be performed; provided, however, that any such entrance or work shall not unreasonably interfere with Tenant's use of or access to the Premises. If such

entry is made as aforesaid, 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 by such entry. For each of the foregoing purposes, Landlord shall at all times have and retain a key and/or other access device with which to unlock all of the doors in, on and about the Premises (excluding Tenant's vaults, safes and similar areas designated in writing by Tenant in advance and approved reasonably by Landlord); 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 any portion thereof.

(b) Landlord shall also have the right at any time to change the arrangement or location of entrances or passageways, doors and doorways, and corridors, elevators, stairs, toilets or other public parts of the Building, and to change the name, number or designation by which the Building is commonly known, and none of the foregoing shall be deemed an actual or constructive eviction of Tenant, nor shall it entitle Tenant to any reduction of Rental hereunder or result in any liability of Landlord to Tenant. Landlord shall consult with Tenant to minimize any security risks to Tenant resulting from such changes. Notwithstanding the foregoing changes, Tenant shall at all times during the term of this Lease continue to have reasonable access to the Premises.

17. [Intentionally Omitted]

18. DEFAULT AND REMEDIES.

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

(i) Tenant fails to pay any Basic Monthly Rental, Monthly Storage Rental or additional monthly rent under Paragraph 4(b) hereof as and when such rent becomes due and payable and such failure continues for more than five (5) business days after Landlord gives written notice thereof to Tenant; provided, however, that after the second such failure in a calendar year, only the passage of time, but no further notice (except any notice required by statute), shall be required to establish an Event of Default in the same calendar year; or

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(ii) Tenant fails to pay any additional rent or other amount of money or charge payable by Tenant hereunder as and when such additional rent or amount or charge becomes due and payable and such failure continues for more than twenty (20) days after Landlord gives written notice thereof to Tenant; provided, however, that after the second



such failure in a calendar year, only the passage of time, but no further notice (except any notice required by statute), shall be required to establish an Event of Default in the same calendar year; or

(iii) Tenant fails to perform or breaches any other agreement or covenant of this Lease to be performed or observed by Tenant as and when performance or observance is due and such failure or breach continues for more than twenty (20) days after Landlord gives written notice thereof to Tenant; provided, however, that if, by the nature of such agreement or covenant, such failure or breach cannot reasonably be cured within such period of twenty (20) days, an Event of Default shall not exist as long as Tenant commences with due diligence and dispatch the curing of such failure or breach within such period of twenty (20) days and, having so commenced, thereafter prosecutes with diligence and dispatch and completes the curing of such failure or breach within a reasonable time; or

(iv) Tenant (A) is generally not paying its debts as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers of Tenant or of any substantial part of Tenant's property, or (E) takes action for the purpose of any of the foregoing; or

(v) Without consent by Tenant, a court or government authority enters an order, and such order is not vacated within thirty (30) days, (A) appointing a custodian, receiver, trustee or other officer with similar powers with respect to Tenant or with respect to any substantial part of Tenant's property, or (B) constituting an order for relief or approving a petition for relief or reorganization or arrangement or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy, insolvency or other debtors' relief law of any jurisdiction, or (C) ordering the dissolution, winding-up or liquidation of Tenant; or

(vi) This Lease or any estate of Tenant hereunder is levied upon under any attachment or execution and such attachment or execution is not vacated within thirty (30) days; or

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(vii) Tenant abandons the Premises and fails to pay the Rental due.

(b) If an Event of Default occurs, Landlord shall have the right at any time to give a written termination notice to Tenant and, on the date specified in such notice, Tenant's right to possession shall terminate and this Lease shall terminate. Upon such termination, Landlord shall have the right to recover from Tenant:

(i) The worth at the time of award of all unpaid rent which had been earned at the time of termination;

(ii) The worth at the time of award of the amount by which all unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

(iii) The worth at the time of award of the amount by which all unpaid rent for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and

(iv) All other amounts necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform all of Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom.

The "worth at the time of award" of the amounts referred to in clauses (i) and (ii) above shall be computed by allowing interest at the maximum annual interest rate allowed by law for business loans (not primarily for personal, family or household purposes) not exempt from the usury law at the time of termination or, if there is no such maximum annual interest rate, at the rate of eighteen percent (18%) per annum. The "worth at the time of award" of the amount referred to in clause (iii) above shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). For the purpose of determining unpaid rent under clauses (i), (ii) and (iii) above, the rent reserved in this Lease shall be deemed to be the total rent payable by Tenant under Articles 3 and 4 hereof.

(c) Even though Tenant has breached this Lease, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord shall have all of its rights and remedies, including the right, pursuant to California Civil Code Section 1951.4, to recover all rent as it becomes due under this Lease. Acts of maintenance or preservation or efforts to relet the Premises or the appointment of a receiver upon initiative of Landlord to protect Landlord's interest under this Lease shall not constitute a termination of

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Tenant's right to possession unless written notice of termination is given by Landlord to Tenant.

(d) The remedies provided for in this Lease are in addition to all other remedies available to Landlord at law or in equity by statute or otherwise.

(a) If the Premises (including all Building Standard Improvements) are partially destroyed or damaged by fire or other casualty, Landlord shall, subject to Paragraphs 19(b), 19(c), 19(d) and 19(e) below, promptly repair such damage if, in Landlord's reasonable judgment based upon the written determination of a California licensed contractor, such repair can be completed within one hundred eighty (180) days under the laws and regulations of the state, federal, county and municipal authorities having jurisdiction, and this Lease shall remain in full force and effect, provided that if there shall be damage to the Premises from any such cause and such damage is not the result of the gross negligence or willful misconduct of Tenant, its agents, employees, contractors or invitees, Tenant shall be entitled to a reduction of the Rental (the provisions of Paragraph 3(a) hereof notwithstanding) while such repair is being made in the proportion that the area of the Premises rendered untenable by such damage bears to the total area of the Premises. Tenant's right to a reduction of Rental under this Paragraph 19 shall be Tenant's sole remedy in connection with any such damage.

(b) If such repairs cannot, in Landlord's reasonable judgment based upon the written determination of a California licensed contractor, be completed within one hundred eighty (180) days, or if such damage occurs during the last six (6) months of the term of this Lease, Landlord shall have the option either (i) to repair such damage, this Lease continuing in full force and effect, but with the Rental proportionately reduced (subject to the conditions set forth in Paragraph 19(a) above), or (ii) to give notice to Tenant at any time within thirty (30) days after the occurrence of such damage terminating this Lease as of a date specified in such notice, which shall not be less than thirty (30) nor more than sixty (60) days after the giving of such notice. If such notice of termination is so given, the Lease and all interest of Tenant in the Premises shall terminate on the date specified in such notice, and the Rental reduced (subject to the conditions set forth in Paragraph 19(a) above) in proportion to the area of the Premises rendered untenable by the damage, shall be paid up to the date of such termination, Landlord hereby agreeing to refund to Tenant any Rental theretofore paid for any period of time subsequent to the termination date.

(c) If the Building is damaged by fire or other casualty to the extent that the repair cost would exceed thirty-

three percent (33%) or more of its replacement value, or if more than thirty-three percent (33%) of the rentable area of the Building is affected by fire or other casualty and repairs to the Building cannot, in Landlord's reasonable judgment based upon the advice of a licensed contractor, be completed within one hundred eighty (180) days, or if insurance proceeds sufficient to complete the repairs are not available due to exercise of rights of a Holder to

collect such proceeds, then in any such case, whether the Premises or the Storage Area are damaged or not, Landlord shall have the right, at its option, to be reasonably exercised, to terminate this Lease by giving Tenant notice thereof within thirty (30) days of such casualty specifying the date of termination which shall not be less than thirty (30) nor more than sixty (60) days after the giving of such notice, and to the extent the Premises are damaged, Tenant shall be entitled to reduction of the Rental as set forth in Paragraph 19(a) above.

(d) If the Premises are damaged by fire or other casualty not resulting in whole or in part from the gross negligence or willful misconduct of Tenant or its employees, agents, contractors or subtenants and the repair to the Premises cannot, in Landlord's reasonable judgment (based upon the written determination of a California licensed contractor), be completed within one hundred eighty (180) days, assuming the availability of labor and materials, Tenant, at its option, may terminate this Lease. Tenant's notice to Landlord of its election to terminate the Lease must be delivered to Landlord within thirty (30) days of the date of Landlord's notice of the estimated time to complete repairs in accordance with this Paragraph 19, and the termination shall be as of a date specified in such Tenant's notice which shall be no less than thirty (30) nor more than sixty (60) days after the giving of such notice. In the event of a termination of the Lease by Tenant under this Paragraph 19(d), the Rental shall be reduced in the same manner as provided under Paragraph 19(b) above, provided Tenant does not elect to terminate this Lease as permitted in this Paragraph 19.

(e) If the Storage Area is damaged by fire or other casualty not resulting in whole or in part from the negligence or willful misconduct of Tenant or its employees, agents, contractors or subtenants and the repair to the Storage Area cannot, in Landlord's judgment, be completed within thirty (30) days, assuming the availability of labor and materials, this Lease shall terminate as to the Storage Area only.

(f) Notwithstanding any of the provisions of this Lease, Landlord shall in no event be required to repair any injury or damage by fire or other cause whatsoever to, or to make any repairs or replacements of, any panelings, decorations, partitions, railings, ceilings, floor coverings, trade or office fixtures or any other property of, or improvements (including Tenant's Extra Improvements and any Alterations) installed on

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the Premises or on the Storage Area by or at the election of Tenant. Tenant hereby agrees to promptly repair any damage to Tenant's Extra Improvements and any Alterations at its sole cost and expense in the event that Landlord is required to, or elects to, repair the remainder of the Premises pursuant to Paragraphs 19(a) and 19(b) above provided Tenant does not elect to terminate this Lease as permitted in this Paragraph 19.

(g) Tenant hereby waives the provisions of subsection 2 of Section 1932, subsection 4 of Section 1933, and Sections 1941 and 1942 of the California Civil Code.

20. EMINENT DOMAIN.

(a) If all or part of the Premises shall be taken by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, this Lease shall terminate as to any portion of the Premises so taken or conveyed on the date when title or the right to possession vests in the condemnor.

(b) If (i) a part of the Premises shall be taken by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof; and (ii) Tenant is reasonably able to continue the operation of Tenant's business in that portion of the Premises remaining; and (iii) Landlord elects to restore the Premises to an architectural whole, then this Lease shall remain in effect as to said portion of the Premises remaining, and the Basic Monthly Rental payable from the date of the taking shall be reduced in the same proportion as the area of the Premises taken bears to the total area of the Premises. If, after a partial taking, Tenant is not reasonably able to continue the operation of its business in the Premises or Landlord elects not to restore the Premises as hereinabove described, this Lease may be terminated by either Landlord or Tenant by giving written notice to the other party within thirty (30) days of the date of the taking. Such notice shall specify the date of termination which shall be not less than thirty (30) nor more than sixty (60) days after the date of said notice.

(c) If a portion of the Building is taken, whether any portion of the Premises is taken or not, and Landlord reasonably determines that it is not economically feasible to continue operating the portion of the Building remaining, then Landlord shall have the option for a period of thirty (30) days after such determination to terminate this Lease. If Landlord determines that it is economically feasible to continue operating the portion of the Building remaining after such taking, then this Lease shall remain in effect, with Landlord, at Landlord's cost, restoring the Building to an architectural whole.

(d) Landlord shall be entitled to any and all payment, income, rent, award, or any interest therein whatsoever

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which may be paid or made in connection with such taking or conveyance, and Tenant shall have no claim against Landlord or otherwise for the value of any unexpired term of this Lease. Tenant hereby assigns any such claim to the Landlord. Notwithstanding the foregoing, Tenant shall have the right to make a claim directly to the entity expressing the power of eminent domain for moving expenses and for loss or damage to Tenant's Extra Improvements, Personal Property, trade fixtures, equipment and movable furniture.

(e) Tenant hereby waives Sections 1265.110 through 1265.160 of the California Code of Civil Procedure.

21. HOLDING OVER. Any holding over after the expiration or other termination of the term of this Lease with the written consent of Landlord delivered to Tenant shall be construed to be a tenancy from month to month at the Basic Monthly Rental and the Monthly Storage Rental in effect on the date of such expiration or termination (subject to adjustment as provided in Paragraph 3(c) hereof) on the terms, covenants and conditions herein specified so far as applicable. Any holding over after the expiration or other termination of the term of this Lease without the written consent of Landlord shall be construed to be a tenancy at sufferance on all the terms set forth herein, except that the Basic Monthly Rental and the Monthly Storage Rental shall be an amount equal to one hundred fifty percent (150%) of the Basic Monthly Rental and the Monthly Storage Rental payable by Tenant immediately prior to such holding over. Acceptance by Landlord of Rental after the expiration or termination of this Lease shall not constitute a consent by Landlord to any such tenancy from month to month or result in any other tenancy or any renewal of the term hereof. The provisions of this Paragraph are in addition to, and do not affect, Landlord's right to re-entry or other rights hereunder or provided by law.

22. MISCELLANEOUS.

(a) Limitation of Landlord's Liability. Any liability of Landlord (including without limitation Landlord's partners, shareholders, affiliates, agents, and employees) to Tenant under this Lease shall be limited to the equity interest of Landlord in the Real Property and Tenant agrees to look solely to such interest for the recovery of any judgment, it being intended that Landlord and such other persons shall not be personally liable for any deficiency or judgment. Notwithstanding any other provision of this Lease, Landlord shall not be liable for any consequential damages, nor shall Landlord be liable for loss of or damage to artwork, currency, jewelry, bullion, unique or valuable documents, securities or other valuables, or for other property not in the nature of ordinary fixtures, furnishings and equipment used in general administrative and executive office activities and functions. Wherever in this Lease Tenant (a) releases Landlord from any claim or

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liability, (b) waives or limits any right of Tenant to assert any claim against Landlord or to seek recourse against any property of Landlord or (c) agrees to indemnify Landlord against any matters, the relevant release, waiver, limitation or indemnity shall run in favor of and apply to Landlord, its agents, the constituent shareholders, partners or other owners of Landlord or its agents, and the directors, officers, and employees of Landlord and its agents and each such constituent shareholder, partner or other owner.

(b) Sale by Landlord. In the event of a sale or conveyance of

the Building by any owner of the reversion then constituting Landlord, the transferor shall thereby be released from any further liability upon any of the terms, covenants or conditions (express or implied) herein contained in favor of Tenant after the effective date of said transfer (provided, however, that Landlord shall remain liable under the Lease for any occurrences, events, or breaches under the Lease occurring prior to the date of said transfer), and in such event, insofar as such transferor is concerned, Tenant agrees to look solely to the successor in interest of such transferor in and to the Building and this Lease. Such successor in interest shall automatically be deemed to succeed to all the rights, responsibilities and obligations of Landlord under the Lease. Tenant agrees to attorn to the successor in interest of such transferor. If Tenant provides Landlord with any security for Tenant's performance of its obligations hereunder, and Landlord transfers, or provides a credit with respect to, such security to the grantee or transferee of Landlord's interest in the Real Property, Landlord shall be released from any further responsibility or liability for such security.

(c) Estoppel Letter. Tenant shall, at any time and from time to time within ten (10) days following request 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), (ii) certifying that there are not, to Tenant's knowledge, any uncured defaults on the part of the Landlord hereunder, and that Tenant has no defenses to or offsets against its obligations under this Lease, or specifying such defaults, defenses or offsets if any are claimed, (iii) certifying the date that Tenant entered into occupancy of the Premises and the Storage Area and that Tenant is open for business in the Premises, (iv) certifying the amount of the Basic Monthly Rental, the Monthly Storage Rental and the Rental payable under Paragraph 4(b) and the date to which Rental is paid in advance, if any, and certifying that Tenant is entitled to no rent abatement or other economic concessions not specified in the Lease, (v) certifying the amount of the Deposit, if any, (vi) certifying that all Improvements to be constructed in the Premises by Landlord are completed (or specifying any obligations of Landlord respecting Improvements),

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and (vii) certifying such other matters relating to this Lease, the Premises and/or the Storage Area as may be reasonably requested by a lender making a loan to Landlord or a purchaser of the Premises, the Building, the Real Property or any interest therein from Landlord. Any such statement may be relied upon by, and shall upon Landlord's request be addressed to, any prospective purchaser or encumbrancer of all or any portion of the Real Property or any interest therein. Tenant shall, within ten (10) days following request of Landlord, deliver such other documents including Tenant's publicly available financial statements as are reasonably requested in connection with the sale of, or loan to be secured by, the Real Property or any part thereof or interest therein. Tenant's failure to deliver said statement in the time required shall be conclusive upon Tenant

that: (i) the Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) there are no uncured defaults in Landlord's performance and Tenant has no right of offset, counterclaim or deduction against Rental under the Lease and (iii) no more than one month's Basic Monthly Rental and Monthly Storage Rental has been paid in advance.

(d) Financial Statements. On or before April 1 of each year, Tenant shall deliver to Landlord Tenant's publicly available financial statements ("Financial Statements") for the fiscal year of Tenant ended on the previous December 31, which Financial Statements shall include a combined balance sheet of Tenant and its combined subsidiaries as at the end of such fiscal year, a combined statement of operations of Tenant and its combined subsidiaries for such fiscal year, and a certificate of Tenant's auditor (or, if audited Financial Statements are not available, then a certificate of Tenant's Chief Financial Officer) to the effect that such Financial Statements were prepared in accordance with generally accepted accounting principles consistently applied and fairly present the financial condition and operations of Tenant and its combined subsidiaries for and as at the end of such fiscal year.

(e) Right of Landlord To Perform. All terms and covenants of this Lease to be performed or observed by Tenant shall be performed or observed by Tenant at Tenant's expense and without any reduction of Rental. If Tenant fails to pay any Rental hereunder or fails to perform any other term or covenant hereunder on its part to be performed, and such failure shall continue for fifteen (15) days (or such shorter period as may be reasonable under emergency circumstances) after written notice thereof by Landlord, Landlord, without waiving or releasing Tenant from any obligation of Tenant hereunder, may make any such payment or perform any such other term or covenant on Tenant's part to be performed but shall not be obligated to do so. All sums so paid by Landlord and all necessary costs of such performance by Landlord, together with interest thereon at the Interest Rate from the date of such payment or performance by Landlord, shall be paid (and Tenant covenants to make such

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payment) to Landlord on demand by Landlord, and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of non-payment thereof by Tenant as in the case of failure by Tenant in the payment of Rental hereunder.

(f) Rules and Regulations. Tenant agrees to faithfully observe and to comply with the Building Rules and Regulations attached hereto as Exhibit B and incorporated herein by this reference, and all modifications of and additions thereto from time to time put into effect by Landlord which are applicable to all tenants of the Building and of which Tenant shall have notice (provided, however, that any modifications of or additions to the Building Rules and Regulations shall not, in any material respect, increase Tenant's obligations or decrease Tenant's rights under the Lease). Landlord shall not be



responsible to Tenant for the non-performance by any other tenant or occupant of the Building of any of said Building Rules and Regulations. In the event any of the Building Rules and Regulations conflict with any express provision of this Lease, the provisions of this Lease shall govern.

(g) Attorneys' Fees. In case any suit or other proceeding shall be brought for an unlawful detainer of the Premises or for the recovery of any Rental due under the provisions of this Lease or because of the failure of performance or observance of any other term or covenant herein contained on the part of Landlord or Tenant, the unsuccessful party in such suit or proceeding shall pay to the prevailing party therein reasonable attorneys' fees and costs which shall include fees and costs of any appeal, all as fixed by the Court. If Landlord or Tenant should be named as a defendant in any suit brought against the other in connection with Tenant's occupancy of the Premises under this Lease, the party defendant primarily responsible for the bringing of such suit shall pay to the other party its costs and expenses incurred in such suit and reasonable attorneys' fees.

(h) Waiver of Jury Trial. If any action or proceeding between Landlord and Tenant to enforce the provisions of this Lease (including an action or proceeding between Landlord and the trustee or debtor in possession while Tenant is a debtor in a proceeding under any bankruptcy law) proceeds to trial, Landlord and Tenant hereby waive their respective rights to a jury in such trial.

(i) Waiver. The failure of Landlord to object to or to assert any remedy by reason of Tenant's failure to perform or observe any covenant or term hereof or its failure to assert any rights by reason of the happening or non-happening of any condition hereof shall not be deemed a waiver of its right to assert and enforce any remedy it may have by reason of such failure on the part of Tenant or the happening or non-happening of such condition or a waiver of its rights to enforce any of

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its rights by reason of any subsequent failure of Tenant to perform or observe the same or any other term or covenant or by reason of the subsequent happening or non-happening of the same or any other condition. No custom or practice which may develop between the parties hereto during the term hereof shall be deemed a waiver of, or in any way affect, the right of Landlord to insist upon performance and observance by Tenant in strict accordance with the terms hereof. The acceptance of Rental hereunder by Landlord shall not be deemed to be a waiver of any preceding failure of Tenant to perform or observe any term or covenant of this Lease, other than the failure of Tenant to pay the particular Rental so accepted, irrespective of any knowledge on the part of Landlord of such preceding failure at the time of acceptance of such Rental.

(j) Light, Air and View. Tenant agrees that no diminution or

shutting off of light, air or view by any structure which may be erected (whether or not by Landlord) on property adjacent to the Building shall in any way affect this Lease, entitle Tenant to any reduction of Rental hereunder or result in any liability of Landlord to Tenant.

(k) Notices. All notices, demands, requests, advices or designations ("Notices") which may be or are required to be given by either party to the other hereunder shall be in writing. All Notices by Landlord to Tenant shall be sufficiently given, made or delivered if personally served on Tenant at the Premises, or if sent by United States certified or registered mail, postage prepaid, addressed to Tenant at Tenant's address for notices as set forth in the Summary of Lease Terms. All Notices by Tenant to Landlord shall be sufficiently given, made or delivered if personally served on Landlord, or sent by United States certified or registered mail, postage prepaid, addressed to Landlord at Landlord's address for notices specified in Paragraph B of the Summary of Lease Terms. Each Notice shall be deemed received or given on the date of the personal service or three (3) days after the mailing thereof, in the manner herein provided, as the case may be.

(l) Name. Tenant agrees that it shall not, without first obtaining the written consent of Landlord (which consent may be withheld in Landlord's sole and absolute discretion): (i) use the name of the Building for any purpose other than as the address of the business conducted by Tenant in the Premises, or (ii) use for any purpose any image of, rendering of, or design based on, the exterior appearance or profile of the Building.

(m) Governing Law; Severability. This Lease shall in all respects be governed by and construed in accordance with the laws of California. If any provision of this Lease shall be invalid, unenforceable or ineffective for any reason whatsoever, all other provisions hereof shall be and remain in effect.

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(n) Definitions and Paragraph Headings; Successors. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The term "Landlord" or any pronoun used in place thereof includes the plural as well as the singular and the successors and assigns of Landlord. The term "Tenant" or any pronoun used in place thereof includes the plural as well as the singular and individuals, firms, associations, partnerships and corporations, and their and each of their respective heirs, executors, administrators, successors and permitted assigns, according to the context hereof. The provisions of this Lease shall inure to the benefit of and bind Landlord and Tenant and their respective heirs, executors, administrators, successors and permitted assigns. The term "person" includes the plural as well as the singular and individuals, firms, associations, partnerships and corporations. Words used in any gender include other genders. If there be more than one Tenant the obligations of Tenant hereunder are joint

and several. The paragraph headings of this Lease are for convenience of reference only and shall have no effect upon the construction or interpretation of any provision hereof.

(o) Time. Time is of the essence of this Lease with respect to the payment of Rental and the performance of all obligations.

(p) Examination of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for a lease, and this instrument is not effective as a lease or otherwise until its execution and delivery by both Landlord and Tenant.

(q) Brokerage. Tenant covenants and represents that it has negotiated this Lease directly with the Tenant's Broker(s) designated on the Summary of Lease Terms and has not acted by implication to authorize, nor has authorized, any other real estate broker or salesman to act for it in these negotiations. Tenant agrees to protect, defend, indemnify and hold Landlord harmless from any and all claims, loss, cost, damage and/or expense (including, without limitation, attorneys' fees and court costs) by any other real estate broker or salesperson or other entity or party other than the Landlord's Broker(s) and Tenant's Broker(s) listed on the Summary of Lease Terms for a commission or finder's fee as a result of Tenant's entering into this Lease.

(r) Directory Board. Landlord agrees to list Tenant's name on the directory board in the lobby of the Building at Landlord's cost and expense; provided, however, any change to the initial listing or any additional listings shall be at Tenant's cost and expense. Landlord's acceptance of any name for listing on the directory board shall in no event be, or be deemed to be, nor will it substitute for, Landlord's consent,

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as required by this Lease, to any sublease, assignment, or other occupancy of the Premises.

(s) Authority. If Tenant is a corporation (or other business organization), Tenant represents and warrants to Landlord that (a) Tenant is duly incorporated (or organized) and validly existing under the laws of its state of incorporation (or organization), (b) Tenant is qualified to do business in California, (c) Tenant has full right, power and authority to enter into this Lease and to perform all of Tenant's obligations hereunder, and (d) the execution, delivery and performance of this Lease has been duly authorized by Tenant and each person signing this Lease on behalf of the Tenant is duly and validly authorized to do so. Concurrently with signing this Lease, Tenant shall deliver to Landlord a true and correct copy of resolutions duly adopted by the board of directors or constituent partners or members of Tenant, certified by the secretary of Tenant to be true and correct, unmodified and in full force, which authorize and approve this Lease and authorize each person signing this

Lease on behalf of Tenant to do so.

(t) Amendments. This Lease may not be amended or modified in any respect whatsoever except by an instrument in writing signed by Landlord and Tenant.

(u) Exhibits and Addenda; Entire Agreement. The Exhibits and Addenda referenced in the Summary of Lease Terms are a part of this Lease and are incorporated herein by this reference. In the event of any discrepancy between the Lease and any such Exhibit or Addendum, the Exhibit or Addendum shall control. This Lease is the entire and integrated agreement between Landlord and Tenant with respect to the subject matter of this Lease, the Premises and the Building. There are no oral agreements between Landlord and Tenant affecting this Lease, and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, offers, agreements and understandings, oral or written, if any, between Landlord and Tenant or displayed by Landlord to Tenant with respect to the subject matter of this Lease, the Premises or the Building, including, from and after the Commencement Date, the lease agreement dated April 14, 1992, with respect to a portion of the 4th, the 5th and the 6th floors of the Building between Landlord's predecessor in interest as "Lessor" and Tenant as "Lessee," and the lease agreement dated December 6, 1989, with respect to the 2nd, the 3rd and a portion of the 4th floors of the Building between Landlord's predecessor in interest as "Lessor" and Tenant's predecessor in interest as "Lessee," both agreements as amended and assigned (collectively, the "Existing Leases"). There are no representations between Landlord and Tenant or between any real estate broker and Tenant other than those expressly set forth in this Lease and all reliance with respect to any representations is solely upon representations expressly set forth in this Lease.

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23. OPTION TO EXTEND. Landlord hereby grants to Tenant one (1) option (the "Option") to extend the term of the Lease for an additional period of five (5) years (the "Option Term), all on the following terms and conditions:

(a) The Option must be exercised, if at all, by written notice irrevocably exercising the Option ("Option Notice") delivered by Tenant to Landlord not earlier than twelve (12) months nor later than six (6) months prior to the Expiration Date. Further, the Option shall not be deemed to be properly exercised if, as of the date of the Option Notice or at the Expiration Date (i) an Event of Default has occurred and is continuing, (ii) Tenant has assigned this Lease or its interest therein to any person or entity other than pursuant to a Permitted Transfer, or (iii) Tenant is occupying less than one hundred percent (100%) of the square footage of the Premises. Provided Tenant has properly and timely exercised the Option, the term of this Lease shall be extended for the period of the Option Term and all terms, covenants and conditions of this Lease shall remain unmodified and in full force and effect, except that the Basic Monthly Rental and Monthly Storage Rental shall be modified as set forth in Paragraph 23(b) below.

(b) The Basic Monthly Rental and the Monthly Storage Rental per rentable square foot ("RSF") payable for the Option Term shall be equal to the greater of (i) the then-current net rental rate per RSF (as further defined below, "FMRR") being agreed to in new leases by the Landlord or the owners ("Comparable Owners") of office buildings in the South of Market/MultiMedia Gulch area of San Francisco which are comparable in quality, location and prestige to the Building (the "Comparable Buildings") and tenants leasing space in the Building or the Comparable Buildings, or (ii) the Basic Monthly Rental and Monthly Storage Rental per RSF in effect during the last month prior to the Expiration Date. As used herein, "FMRR" shall mean the net rental rate per RSF for which Landlord and Comparable Owners are entering into new leases within the time period of eighteen (18) to twelve (12) months prior to the Expiration Date ("Market Determination Period"), with new or existing tenants leasing from Landlord and/or Comparable Owners' office space in the Building and/or the Comparable Owners which space is comparable to the Premises and the Storage Area in views and other material factors ("Comparative Transactions"). Landlord shall provide its determination of the FMRR to Tenant within twenty (20) days after Landlord receives the Option Notice. Tenant shall have fifteen (15) days ("Tenant's Review Period") after receipt of Landlord's notice of the FMRR within which to accept such FMRR or to reasonably object thereto in writing. In the event Tenant objects to the FMRR submitted by Landlord, Landlord and Tenant shall attempt to agree upon such FMRR. If Landlord and Tenant fail to reach agreement on such FMRR within fifteen (15) days following Tenant's Review Period (the "Outside Agreement Date"), then each party shall place in a separate sealed envelope its final proposal as to FMRR and such

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determination shall be submitted to arbitration in accordance with Paragraph 23(c) below.

(c) (1) Landlord and Tenant shall meet with each other within five (5) business days of the Outside Agreement Date and exchange the sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree in writing upon the FMRR within five (5) business days of the exchange and opening of envelopes, then, within ten (10) business days of the exchange and opening of envelopes, Landlord and Tenant shall agree upon and jointly appoint one arbitrator who shall be by profession a real estate appraiser or broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of comparable commercial properties in the vicinity of the Building. Neither Landlord nor Tenant shall consult with such broker or appraiser as to his or her opinion as to FMRR prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted FMRR for the Premises is the closer to the actual net rental rate per RSF for new leases within the Market Determination Period for Comparative Transactions. Such arbitrator may hold such hearings and require such briefs as the arbitrator, in his or her sole discretion, determines is necessary. In addition, Landlord or Tenant may submit

to the arbitrator with a copy to the other party within five (5) business days after the appointment of the arbitrator any data and additional information that such party deems relevant to the determination by the arbitrator ("Data") and the other party may submit a reply in writing within five (5) business days after receipt of such Data.

(2) The arbitrator shall, within thirty (30) days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted FMRR, and shall notify Landlord and Tenant of such determination. Notwithstanding anything to the contrary in this Lease, if Landlord and Tenant cannot agree on the FMRR for the Premises, Tenant may rescind its exercise of the Option by giving Landlord written notice of such election to rescind within ten (10) days after receipt of Landlord's notice of arbitration provided that Landlord receives such notice no later than six (6) months prior to the Expiration Date.

(3) The decision of the arbitrator shall be binding upon Landlord and Tenant.

(4) If Landlord and Tenant fail to agree upon and appoint such arbitrator, then the appointment of the arbitrator shall be made by the Presiding Judge of the Superior Court for the City and County of San Francisco, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

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(5) The cost of arbitration shall be paid by Landlord and Tenant equally.

24. RIGHT OF FIRST OFFER.

(a) Whenever, during the term of this Lease, a lease by any third party of any space on the First Floor of the Building expires (and is not extended or replaced with a new lease to the same party) or otherwise terminates, and such space (the "Available Space") becomes available for lease, Landlord shall give Tenant written notice of such availability, identifying the same and specifying the basic terms and conditions on which Landlord proposes to lease the Available Space (the "Space Offer Notice"), including basic rent, tenant improvement allowance (if any) and term. The Space Offer Notice shall be given not more than eight (8) months nor less than two (2) months prior to the date Tenant would be required to commence paying rent for the Available Space (the "New Space Commencement Date"). Tenant shall have ten (10) business days after its receipt of the Space Offer Notice in which Tenant may give Landlord written notice of Tenant's acceptance of the Available Space on the terms and conditions specified in the Availability Notice (the "Space Acceptance Notice"). Landlord hereby represents and warrants that the current lease for the Available Space terminates under its terms on July 1, 2004 (the "Available Space Lease") and, notwithstanding anything contained in this Paragraph 24 to the contrary,

Landlord hereby agrees that it will not extend the term of the "Available Space Lease" beyond said date without first offering to Tenant the Available Space in accordance with this Paragraph 24.

(b) Prior to giving the Space Offer Notice to Tenant and for ten (10) business days thereafter, Landlord shall not enter into any lease of the Available Space with any other person. If during such ten (10) business day period Tenant gives Landlord a Space Acceptance Notice, Landlord and Tenant shall then promptly enter into an amendment to this Lease adding the Available Space to the Premises on the terms and conditions specified in the Space Offer Notice with respect to the Available Space only.

(c) If Tenant has not given Landlord a Space Acceptance Notice within ten (10) business days after Tenant's receipt of the Space Offer Notice, then Landlord shall be free to lease the Available Space to any other person or entity on any terms and conditions; provided, however, that Landlord shall not lease the Available Space to any other person or entity on basic terms materially less favorable to Landlord than those set forth in the Space Offer Notice without first giving Tenant at least five (5) days prior written notice of such proposed lease and the opportunity (during such five (5) day period by delivery of written notice to Landlord) to agree to lease the Available Space on the same terms and conditions as those of such proposed lease. In determining whether "lease terms" are materially less

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favorable than the terms offered to Tenant, no terms other than rent, tenant improvement allowance (if any) and minimum term shall be considered.

(d) Tenant's rights under this Paragraph 24 shall be subject and subordinate to Landlord's right after the Commencement Date to enter into an agreement with any existing tenant of the Available Space (other than the tenant under the Available Space Lease) as to continuing occupancy of all or any portion of the Available Space. Any space which is subject to such a prior right or subsequent agreement shall not be deemed available for lease for purposes of this Paragraph 24.

(e) If Tenant shall exercise the right of first offer granted herein, Landlord does not guarantee that the Available Space will be available on the projected commencement date for the lease thereof, if the then existing occupants of the Available Space shall hold over, or for any other reason beyond Landlord's reasonable control. In such event, rent with respect to the Available Space shall be abated until Landlord legally delivers the same to Tenant, as Tenant's sole recourse.

(f) The right of first offer herein shall, at Landlord's election, be null and void, if (i) an Event of Default has occurred and is continuing under the Lease on the date Tenant exercises its rights hereunder or on the commencement date of the lease for the Available Space, or (ii) Landlord

has given to Tenant two (2) or more notices of default under this Lease and Tenant actually was in default of the Lease during the twelve (12) month period prior to the time that Landlord would be required to provide Tenant the Availability Notice. If the Lease or Tenant's right to possession of the Premises shall terminate in any manner whatsoever before Tenant shall exercise the right herein provided, or if Tenant shall have subleased any portion of the Premises or assigned all or any portion of the Lease (except in the event of a Permitted Transfer), then immediately upon such termination, sublease or assignment, the rights to lease the Available Space herein granted shall simultaneously terminate and become null and void. Such right is personal to Tenant. Under no circumstances whatsoever shall the assignee under a complete or partial assignment of the Lease, or a subtenant under a sublease of the Premises or any part thereof, have any right to exercise the right of first offer granted herein; provided, however, that in the event of an assignment of this Lease which is a Permitted Transfer, such permitted transferee shall have the right of first offer granted herein. Notwithstanding anything to the contrary in this Lease and subject to the provisions of this Paragraph 24, this right of first offer shall be a continuing right which shall remain in effect at all times during the term of this Lease and any extended term hereof.

25. TENANT'S SIGNS. Tenant shall have the right to place signage on the exterior of the Building and in the lobby of the

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Building. Any such signage is subject to all applicable laws, codes, rules and regulations and to the approval of the City and County of San Francisco and the reasonable approval of Landlord as to design, location and materials used. Any sign must be prepared by a professional sign company. Tenant shall maintain all signs at its cost and expense. If Tenant fails to maintain its signs and such failure continues for a period of ten (10) days after notice thereof by Landlord without Tenant having undertaken diligent efforts to complete the required maintenance, Landlord may, but shall not be obligated, to perform any such required maintenance. Tenant shall promptly pay to Landlord the cost of such required maintenance as additional rent. At the termination of the Lease, Tenant shall remove all its signs, and all damage caused by such removal shall be at Tenant's expense.

26. PARKING. Tenant may lease on a monthly basis twenty-four (24) parking spaces in the Building (the "Building Lot") and forty-eight (48) spaces in the 345 Brannan Street lot (the "345 Brannan Street Lot") (such spaces to be collectively referred to as the "Existing Parking"). Landlord shall also make commercially reasonable efforts to provide Tenant with up to eight (8) additional parking spaces (the "Additional Parking") in the 345 Brannan Street Lot or an alternative lot (the "Alternative Lot") within 500 feet of the 345 Brannan Street Lot. The Additional Parking shall be subject to availability (as determined in Landlord's reasonable discretion), at market rates (as determined in Landlord's reasonable discretion) and subject to annual escalations.



Notwithstanding anything to the contrary in this Lease, Landlord hereby agrees that at all times during the term of this Lease, Tenant shall have the continuing right to lease the Existing Parking and the right to park up to two (2) motorcycles in one (1) parking space at no additional charge. The use by Tenant, its employees and invitees of these parking lots shall be subject to the rules and regulations established from time to time by the owner or operator of the lots. Landlord shall not "restripe" or otherwise improve any of these parking lots unless required to do so by law. Notwithstanding anything to the contrary in this Lease, the Building Lot and the 345 Brannan Street Lot shall be managed and maintained in a first class manner and condition comparable to that of parking facilities owned by Comparable Landlords.

27. BRIDGE ACCESS.

(a) One (1) one-story bridge extends from the second floor of the Building and one (1) two-story bridge extends from the third floor of the Building (collectively, "the Bridges"), respectively, toward the second and third stories of that certain building commonly known as 35 Stanford Street, San Francisco, California (the "Stanford Street Property"), which Bridges are owned by the Landlord. Tenant may connect the second and third floors of the Premises to the Stanford Street

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Property by extending the existing Bridges, and performing any other required improvements (collectively, the "Connection Alterations"), subject to applicable laws and to Landlord's approval of the plans for such work, which approval Landlord may withhold in its sole and absolute discretion. Tenant shall accept the Bridges on an "as-is" basis. Landlord makes no representations or warranty regarding the Bridges with respect to their condition or suitability for Tenant's intended use.

(b) Provided Tenant constructs the Connection Alterations, Tenant shall be responsible for all required maintenance of the Bridges, pursuant to Paragraph 9 of the Lease. Provided Tenant constructs the Connection Alterations, Tenant also shall be responsible for the costs of all utilities used in or in connection with the Bridges, and such costs shall be excluded from the definition of "Operating Expenses." The liability insurance that Tenant must maintain pursuant to Paragraph 14 of the Lease shall cover the Bridges and Tenant's use of the Bridges. Provided Tenant constructs the Connection Alterations, Tenant hereby agrees to indemnify, defend and hold harmless Landlord and its Indemnitees from and against any and all claims, demands, damages, expenses, losses, costs and liabilities, including, without limitation, reasonable attorneys' fees and expenses, incurred by, imposed on or payable by Landlord arising out of any act or omission by any person who has gained access to the Real Property through the Bridges or the Stanford Street Property, or arising out of the condition of the Bridges or otherwise related to the Bridges; this indemnity shall survive the termination of this Lease as to conditions arising and events occurring prior to the termination of this Lease. Upon

termination of this Lease, Tenant shall, at Tenant's cost, cause the Stanford Street Property-end of the Bridges to be sealed and finished to Landlord's reasonable satisfaction.

Tenant shall provide Landlord with a deposit, escrow account or letter of credit equal to the Landlord's reasonable estimate of the cost of removing the Connection Alterations and restoring the Bridges to their condition prior to construction of the Connection Alterations (the "Connection Removal Security") at the expiration of the Lease term. If Tenant removes the Connection Alterations and restores the Bridges to their condition prior to construction of the Connection Alterations on or before the expiration or sooner termination of this Lease, and such work is performed to the reasonable satisfaction of Landlord, Landlord shall immediately return the Connection Removal Security to Tenant. If Tenant fails to remove the Connection Alterations upon the expiration or sooner termination of this Lease, Landlord may use the Connection Removal Security to remove said Connection Alterations and restore the Bridges and shall immediately return any remaining amount of the Connection Removal Security to Tenant.

53.

28. TENANT ALLOWANCE. On the Commencement Date, Landlord shall provide Tenant with a tenant improvement allowance in the amount of four hundred twelve thousand six hundred eighty-five and 00/100 dollars (\$412,685.00) which sum Tenant shall use for improvements of and to the Premises or for other related costs.

29. APPROVALS. Except as otherwise expressly provided in this Lease, whenever the Lease requires an approval, consent, designation, determination or judgment by either Landlord or Tenant, such approval, consent, designation, determination or judgment shall be reasonable, shall not be unreasonably withheld or delayed and, in exercising any right or remedy hereunder, each party shall at all times act reasonably and in good faith.

30. LICENSE AGREEMENT. Concurrently with the execution and delivery of this Lease, Landlord and Tenant shall execute

54.

and deliver a License Agreement in the form attached to this Lease as Exhibit D.

31. TERMINATION OF EXISTING LEASES. Upon the Commencement Date of this Lease, the Existing Leases (as defined in Paragraph 22(u)) shall automatically terminate without any further action by Landlord or Tenant; provided, however, that any obligations which arose under the Existing Leases prior to the Commencement Date shall survive such termination.

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered

this Lease as of the day and year first above written.

LANDLORD:

SOMA PARTNERS, L.P., a California limited partnership

By SKS/Rosenberg, LLC, a Delaware limited liability company, general partner

By Stein Kingsley Stein, a California corporation, Member

By /s/ Paul Stein  
-----  
Its President  
-----

TENANT:

ADVENT SOFTWARE, INC., a Delaware corporation

By /s/ Irv Lichtenwald  
-----  
Its: CFO  
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55.

EXHIBIT A

FLOOR PLAN

[FLOOR PLANS FOR 2ND, 3RD, 4TH, 5TH & 6TH FLOORS APPEARS HERE]

EXHIBIT A-1

STORAGE AREA

EXHIBIT B

BUILDING RULES AND REGULATIONS

1. Sidewalks, halls, passages, exits, entrances, elevators, escalators and stairways shall not be obstructed by 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, escalators and stairways are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence, in the reasonable judgment of Landlord, would be prejudicial to the safety, character, reputation and interests of the Building and its tenants.

2. Except as permitted in the License Agreement and the Lease, no sign, placard, picture, name, advertisement or notice, visible from the exterior of leased premises shall be inscribed, painted, affixed or otherwise displayed by any tenant either on its premises or any part of the Building without the prior written consent of Landlord, and Landlord shall have the right to remove any such sign, placard, picture, name, advertisement, or notice without notice to and at the expense of the tenant.

If Landlord shall have given such consent to any tenant at any time, whether before or after the execution of the Lease, such consent shall in no way operate as a waiver or release of any of the provisions hereof or of such Lease, and shall be deemed to relate only to the particular sign, placard, picture, name, advertisement or notice so consented to by Landlord and shall not be construed as dispensing with the necessity of obtaining the specific written consent of Landlord with respect to any other such sign, placard, picture, name, advertisement or notice.

No signs will be permitted on any entry door unless the door is glass. All glass door signs must be approved by Landlord. Signs or lettering shall be printed, painted, affixed or inscribed at the expense of the tenant by a person approved by Landlord.

3. The bulletin board or directory of the Building will be provided exclusively for the display of the name and location of tenants only and Landlord reserves the right to exclude any other names therefrom. Landlord reserves the right to restrict the amount of directory space utilized by Tenant.

4. No curtains, draperies, blinds, shutters, shades, screens or other coverings, hangings or decorations shall be attached to, hung or placed in, or used in connection with, any window on any premises without the prior written consent of Landlord. In any event, with the prior written consent of

Landlord, all such items shall be installed inside of Landlord's standard draperies and shall in no way be visible from the exterior of the Building. No articles shall be placed or kept on the window sills so as to be visible from the exterior of the Building.

5. Landlord reserves the right to exclude from the Building between the hours of 6 P.M. and 6 A.M. and at all hours on Saturdays, Sundays and holidays all persons who do not present a pass to the Building signed by Landlord. Landlord will furnish passes to persons for whom any tenant requests the same in writing. Each tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts of such persons.

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.

During any invasion, mob, riot, public excitement or other circumstance rendering such action advisable in Landlord's reasonable opinion, Landlord reserves the right to prevent access to the Building by closing the doors, or otherwise, for the safety of tenants and protection of the Building and property in the Building.

6. No tenant shall employ any person or persons other than the janitor of Landlord for the purpose of cleaning the premises unless otherwise agreed to by Landlord in writing. 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. No tenant shall cause any unnecessary labor by reason of such 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 property of any tenant by the janitor or any other employee or any other person. Janitorial service shall include ordinary dusting and cleaning by the janitor assigned to such work and shall not include beating or cleaning of carpets or rugs or moving of furniture or other special services. Janitorial service will not be furnished on nights when rooms are occupied after 9:30 p.m., except for janitorial work that can be completed without interfering with the occupants. Window cleaning shall be done only by Landlord, and at such intervals and such hours as Landlord shall deem reasonably appropriate.

7. No tenant shall obtain for use upon its premises ice, drinking water, food, beverage, towel or other similar services, or accept barbering or bootblacking services in its premises, except from persons authorized by Landlord, which authorization shall not be unreasonably withheld, and at hours and under regulations fixed by Landlord.

8. Each tenant shall see that the doors of its premises are closed and securely locked and must observe strict care and caution that all water faucets or water apparatus are entirely shut off before the tenant or its employees leave such premises, and that all utilities shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness the Tenant shall make good all injuries sustained by other tenants or occupants of the Building. On multiple-tenancy floors all tenants shall keep the door or doors to the Building corridors closed at all times except for ingress and egress.

9. No tenant shall alter any lock or install a new or additional lock or any bolt on any door of its premises without the prior written consent of Landlord. If Landlord shall give its consent, the tenant shall in each case furnish Landlord with a key for any such lock.

10. Landlord will furnish Tenant without charge with two (2) keys to each door lock provided in the Premises by Landlord. Landlord may make a reasonable charge for any additional keys. Tenant shall not have any such keys copied or any keys made. Each tenant, upon the termination of the tenancy, shall deliver to Landlord all the keys of or to the Building, offices, rooms and toilet rooms which shall have been furnished to the Tenant or which the Tenant shall have had made. In the event of the loss of any keys so furnished by Landlord, Tenant shall pay Landlord therefor.

11. The toilet rooms, toilets, 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.

12. No tenant shall use or keep in its 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 or otherwise approved by Landlord.

13. No tenant shall use, keep or permit to be used or kept in its premises any foul or noxious gas or substance or permit or suffer such premises to be occupied or used in a manner offensive or objectionable to 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 or kept in or about any premises or the Building; provided, however, domesticated animals may be kept in the Premises provided that Tenant pays for any damage to the Real Property caused by such animals and agrees to abide by any objections to such animals

raised by any other tenants in the Building, including ceasing to allow any animals on the Real Property if required.

14. No cooking shall be done or permitted by any tenant on its premises, except that the preparation of coffee, tea, hot chocolate and similar items for tenants and their employees shall be permitted, nor shall such premises be used for lodging.

15. Except with the prior written consent of Landlord, no tenant shall sell, or permit the sale, at retail of newspapers, magazines, periodicals, theater tickets or any other goods or merchandise in or on any premises, nor shall any tenant carry on, or permit or allow any employee or other person to carry on, the business of stenography, typewriting or any similar business in or from any premises for the service or accommodation of occupants of any other portion of the Building, nor shall the premises of any tenant be used for the storage of merchandise or for manufacturing of any kind, or the business of a public barber shop, beauty parlor, or any business or activity other than that specifically provided for in such tenant's lease.

16. Landlord will direct electricians as to where and how telephone, telegraph and electrical wires are to be introduced or installed. No boring or cutting for wires will be allowed without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. The location of telephones, call boxes and other office equipment affixed to all premises shall be subject to the written approval of Landlord. All electrical appliances must be grounded and must meet UL Label Standards.

17. Except as permitted in the License Agreement, no tenant shall install any radio or television antenna, loudspeaker or any other device on the exterior walls of the Building.

18. No furniture, freight, equipment, packages or merchandise will be received in the Building or carried up or down the elevators, except between such hours, through such entrances and in such elevators as shall be designated by Landlord. Landlord reserves the right to require that moves be scheduled and carried out during nonbusiness hours of the Building. 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 thereof. 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 the Tenant.

19. No tenant shall overload the floor of its premises.

20. There shall not be used in any space, or in the public areas of the Building, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards. No other vehicles of any kind shall be brought by any tenant into or kept in or about any premises in the Building except for the underground connected parking garage.

21. Each tenant shall store all its trash and garbage within the interior of its premises. No material shall be placed in the trash boxes or receptacles if such material is of such nature that it may not be disposed of in the ordinary and customary manner of removing and disposing of trash and garbage in the City of San Francisco without violation of any law or ordinance governing such disposal. All trash, garbage and refuse disposal shall be made only through entryways and elevators provided for such purposes and at such times as Landlord shall designate.

22. Canvassing, soliciting, distribution of handbills and other written materials and peddling in the Building are prohibited and each tenant shall cooperate to prevent the same.

23. Landlord shall have the right, exercisable without notice and without liability to any tenant, to change the name and address of the Building.

24. The requirements of tenants will be attended to only upon application to Landlord. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee will admit any person (tenant or otherwise) to any office without specific instructions from Landlord.

25. Landlord may waive any one or more of these Rules and Regulations for the benefit of any particular tenant or tenants, but no such waiver by Landlord shall be construed as a waiver of such Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any such Rules and Regulations against any or all tenants of the Building.

26. These Rules and Regulations may be changed from time to time, as Landlord may deem reasonably appropriate, and are in addition to, and shall not be construed to in any way modify, alter or amend, in whole or in part, the terms, covenants and conditions of the Lease.

5.

EXHIBIT C

COMMENCEMENT DATE MEMORANDUM



THIS MEMORANDUM is entered into as of \_\_\_\_\_, 199\_ by and between SOMA PARTNERS, L.P., a California limited partnership ("Landlord"), and ADVENT SOFTWARE, INC., a Delaware corporation ("Tenant"), with respect to that certain Office Lease dated as of \_\_\_\_\_, 199\_ (the "Lease") respecting certain premises (the "Premises") located in the building known as 301 Brannan Street, San Francisco, California.

Pursuant to Paragraph 2(a) of the Lease, Landlord and Tenant hereby confirm and agree that the Commencement Date (as defined in the Lease) is \_\_\_\_\_, 199\_ and that the Expiration Date (as defined in the Lease) is \_\_\_\_\_, 20\_\_.

This Memorandum supplements, and shall be a part of, the Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Memorandum as of the day and year first above written.

LANDLORD:

SOMA PARTNERS, L.P., a California limited partnership

By SKS/Rosenberg, LLC, a Delaware limited liability company, general partner

By Stein Kingsley Stein, a California corporation, Member

By \_\_\_\_\_

Its \_\_\_\_\_

TENANT:

ADVENT SOFTWARE, INC., a Delaware corporation

By

Its \_\_\_\_\_

EXHIBIT D

## LICENSE AGREEMENT

THIS LICENSE AGREEMENT (the "Agreement") is made as of August 1, 1998, by and between SOMA PARTNERS, L.P., a California limited partnership ("Licensor"), and ADVENT SOFTWARE, INC., a Delaware corporation ("Licensee"), with reference to the following recitals:

### RECITALS

A. Licensor and Licensee entered into that certain Lease of even date herewith (the "Lease"). Pursuant to the Lease, Licensee leases from Licensor certain premises consisting of the second, third, fourth, fifth and sixth floors located in the building (the "Building") commonly known as 301 Brannan Street, in the City of San Francisco, State of California (the "Premises"). Each capitalized term used in this Agreement, but not defined herein, shall have the meaning ascribed to it in the Lease.

B. Licensee desires to install, operate and maintain telecommunications or satellite equipment, generators and/or signage on the roof of the Premises (the "Roof"), and Licensor desires to grant Licensee a license for this purpose, all on the terms and conditions set forth herein.

THEREFORE, for good and valuable consideration, receipt of which is acknowledged, the parties agree as follows:

1. License. Licensor hereby grants to Licensee, subject to all of the terms and conditions contained in this Agreement, an exclusive license (the "License") to install, operate and maintain on a five hundred (500) square foot area of the Roof (as shown on Exhibit A attached hereto) (the "Licensed Area"), and to remove therefrom, telecommunications or satellite equipment, generators and/or signage (the design and materials of such signage to be subject to Landlord's reasonable consent and applicable laws and regulations), as may be required by Licensee during the term of the Lease or any extension thereof (collectively, the "Equipment"). The License includes the right to have access to the Roof in connection with the use thereof as permitted herein.

2. Licensor's Recapture Option; License Termination. If Licensee has not exercised its rights under the License to use the License Area on or before two (2) years after the Commencement Date of the Lease, then Licensor may send written notice to Licensee requesting use of the License Area ("Recapture Notice"). Within ten (10) days of the Recapture Notice, Licensee must notify Licensor in writing of its intent to use the License Area. If Licensee does not so notify Licensor within such period, Licensee's rights under this License will terminate. If Licensee notifies Licensor in

writing of its intent to use the License Area, it must install or substantially

undertake the installation of the Equipment in the License Area within thirty (30) days of such notification. If Licensee does not substantially undertake such installation within such period, Licensee's rights under this License will expire at the end of such period.

3. Use. Licensee shall use the License Area only in connection with Licensee's or its successors' or its assigns' (in connection with Permitted Transfer) operations in the Premises. Licensee's use of the License Area shall not interfere with the maintenance or operation of any other equipment and/or structure that is located on the Roof at the time Licensee installs the Equipment in the License Area. Licensee shall have access to the Roof as required for the installation, operation, maintenance and removal of the Equipment. No changes, modifications, additions or substitutions shall be made to the Equipment without the prior written approval of Licensor, which shall not be unreasonably withheld; provided, however, that Licensee may remove the Equipment at any time during the term of this Agreement or the Lease without Licensor's consent. If Licensee removes all of the Equipment, Licensee shall provide Licensor with written notice of such removal within ten (10) days thereof, and this Agreement shall terminate upon the date of such removal.

4. Condition of Roof. Licensee acknowledges that the License Area and the Roof shall be used by Licensee pursuant to the License on an "as is" basis and that Licensor has not made any representation or warranty regarding the License Area or the Roof with respect to its suitability for the installation, maintenance or operation of the Equipment. Licensee's decision to use the License Area is based on Licensee's own investigation and analysis of the License Area. Licensee shall be obligated, at its sole cost and expense, to repair any and all damage caused by Licensee's installation, maintenance, operation or removal of the Equipment in the License Area or exercise of Licensee's rights under this License.

5. Maintenance. Licensee shall repair any damage to the Roof or the Premises caused by its use of the License Area or by the installation, operation, maintenance or removal of the Equipment. Following Licensee's installation of the Equipment in the License Area, Licensee shall maintain the License Area to the extent such maintenance is required due to Licensee's use of the License Area or as a result of Licensee's Equipment or exercise of Licensee's rights under this License, and Licensor shall have no responsibility to maintain or operate the Equipment. Notwithstanding anything to the contrary in this Agreement, Licensee shall have no obligations under this Agreement until Licensee exercises any of its rights under this License.

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6. Utilities. Licensee shall be responsible for the actual cost of all utilities consumed in connection with the use of the License and shall pay such cost either directly to the utility provider or to the Landlord as additional rent, and such cost shall be excluded from the definition of "Operating Expenses" under the Lease.

7. Assignment and Subletting. Except in connection with a Permitted Transfer, Licensee shall not: (a) assign, encumber, transfer or convey this License or any interest in this License; (b) allow any assignment or transfer of Licensee's interest in this License, whether by operation of law or otherwise; or (c) permit the use of the License Area, the Roof or the Equipment by anyone other than Licensee. Any attempted assignment, sublease or other transfer by Licensee of all or any interest in the License Area or this License in violation of this paragraph shall be void and of no legal effect and shall constitute an event of default under this License.

8. Rules and Regulations. Licensee shall comply with any reasonable rules and regulations Licensor may enact with respect to the use of the License Area or Roof and/or the installation, operation or maintenance of the Equipment.

9. Insurance. The liability insurance that Licensee must maintain pursuant to Paragraph 14 of the Lease shall cover the Roof and Licensee's use of the License.

10. Indemnity. Licensee agrees to indemnify, defend and hold harmless Licensor, its agents, officers, directors, shareholders, partners, employees, servant from and against any and all claims, liabilities, demands, costs, damages, losses, actions, causes of action or judgments (including reasonable legal fees and expenses) (the "Losses") which result from or arise out of the installation, existence, operation, maintenance or removal of the Equipment or Licensee's use of the License, except to the extent any such Losses are caused by the gross negligence or willful misconduct of Licensor or its Indemnitees. Licensee's obligations under this paragraph shall survive the expiration or earlier termination of this Agreement.

11. Termination; Default. The License and this Agreement shall automatically terminate in the event the Lease terminates for any reason. In addition, Licensor may elect to terminate the License and this Agreement at any time upon written notice to Licensee; provided, however, Licensor agrees not to exercise such right unless (i) Licensee has failed to cure any default under or breach of this Agreement within thirty (30) days after Licensor has given to Licensee written notice of such a default under this Agreement (or such longer period of time required if such default or breach cannot be cured within said thirty (30) day period and Licensee commences to cure such default within said thirty (30) day period) or (ii) Licensee has failed to cure any default under the Lease within the time periods and pursuant

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to the terms specified in the Lease. If the License and this Agreement are terminated as provided in this Paragraph 11, then Licensee shall at its expense: (i) immediately remove the Equipment from the Roof; and (ii) repair any damage resulting from such removal.

12. Compliance With Laws. Licensee, at Licensee's sole cost and expense, shall comply with all laws, orders and regulations of federal, state, county and municipal authorities with respect to the installation, operation and maintenance of the Equipment.

13. Access By Licensor. Licensor reserves and shall at any and all times, after reasonable notice, have full access to the Roof to inspect the same.

14. Entire Agreement; Nature of Rights; Modifications. This Agreement constitutes the entire agreement between Licensor and Licensee with respect to the License and no promises or representations, express or implied, either written or oral, not herein set forth shall be binding upon or inure to the benefit of Licensor or Licensee. This Agreement shall not be modified by any oral agreement, either express or implied, and all modifications hereof shall be in writing and signed by both Licensor and Licensee.

15. Attorneys' Fees. In the event of any action or proceeding between Licensor and Licensee to enforce or interpret any provision of this Agreement, the losing party shall pay to the prevailing party all costs and expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred in such action and in any appeal in connection therewith by such prevailing party. The "prevailing party" will be determined by the court before whom the action was brought based upon an assessment of which party's major arguments or positions taken in the suit or proceeding could fairly be said to have prevailed over the other party's major arguments or positions on major disputed issues in the court's decision.

16. Counterparts. This Agreement may be signed in multiple counterparts which, when signed by all parties, shall constitute a binding agreement.

17. Successors in Interest. Subject to the restrictions of Paragraph 7 hereof, the provisions of this Agreement shall inure to the benefit of and bind Licensor and Licensee and their

## SELECTED PORTIONS OF ADVENT'S 1998 ANNUAL REPORT TO STOCKHOLDERS

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

Advent is a leading provider of stand-alone and client/server software products, data interfaces and related maintenance and services that automate, integrate and support mission-critical functions of investment management organizations. Our clients vary significantly in size and assets under management and include investment advisors, brokerage firms, banks, hedge funds, corporations, public funds, universities and non-profit organizations.

## ACQUISITIONS

In February 1996, we acquired Data Exchange, Inc. (the DX Group), a private company based in New York, for \$4.0 million in cash and an \$800,000 note. This note was paid during the third quarter of 1996 and did not bear interest. The transaction was accounted for as a purchase. We incurred a charge of \$5.6 million in connection with the write-off of in-process research and development.

In November 1996, we issued 35,000 shares of common stock in exchange for all of the outstanding shares of Bold Software, Inc., a private software development company based in New York. This business combination was accounted for as a pooling of interests. Prior year amounts have not been restated to include Bold Software's results of operations as such operations were immaterial. As a result of this business combination, we introduced Advent Partner, a tax layering and partnership allocation solution which integrates with Axys.

In February 1998, we issued 250,000 shares of common stock in exchange for all of the outstanding shares of MicroEdge, Inc., a leading provider of software products to foundations, corporations and other organizations to manage their grant-making activities. This business combination was accounted for as a pooling of interests and the results of operations of MicroEdge are included in the financial statements beginning January 1, 1998. The results of operations as well as the assets and liabilities of MicroEdge in 1997, or prior years, were not material to the consolidated results of operations or financial position. Accordingly, we did not restate our financial statements for periods prior to January 1, 1998.

In May 1998, we issued 170,000 shares of common stock for certain assets of the Grants Management Division of Blackbaud, Inc., a privately held company located in Charleston, South Carolina. Through this acquisition we combined the Grants Management product line of Blackbaud with MicroEdge. This transaction was accounted for as a purchase and the results of operations of the business and assets acquired are included in our financial statements from the date of acquisition. We incurred a charge relating to in-process research and development and other expenses of \$5.4 million in connection with this transaction.

In November 1998, we issued 15,000 shares of common stock and paid \$4.1 million in exchange for all the outstanding shares of Hub Data, Inc., a distributor of consolidated securities information and data to investment management organizations. Hub Data is located in Cambridge, MA and delivers services to over 240 institutional investment firms. This business combination was accounted for as a purchase. We incurred a charge relating to in-process research and development of \$3.0 million in connection with this transaction.

In November 1998, we paid AUS \$583,000 (approximately US \$370,000) in exchange for all the outstanding shares of Portfolio Management Systems Pty., Ltd., a distributor of Advent products in Australia. This business combination was accounted for as a purchase. This acquisition will provide an international channel for sale of our products and services. Subsequent to the acquisition, we changed the name of this subsidiary to Advent Australia.

## RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

## REVENUES

Net revenues were \$71 million, \$48.6 million, and \$36.7 million in 1998, 1997, and 1996, respectively, representing increases of 46% from 1997 to 1998 and 32% from 1996 to 1997. Our net revenues are derived from license and development fees, maintenance and other recurring revenues, and professional services and other revenues related to our software products. In each of 1998,

1997 and 1996, substantially all of our net revenues were from domestic sales, with international sales representing less than 3% of net revenues. License revenues are derived from the licensing of software products while development fees are derived from development contracts that we have entered into with other companies, including customers and development partners. Maintenance and other recurring revenues are derived from maintenance fees charged in the initial licensing year, renewals of annual maintenance services in subsequent years and revenues derived from client utilization of proprietary interfaces to access pricing and other data supplied by third parties. Professional services and other revenues includes fees for consulting, implementation and integration management, custom programming, training services and semi-annual conferences.

Axys and its related products and services accounted for the majority of net revenues in 1998, 1997 and 1996. However, we have been successful in increasing multi-product sales by emphasizing our suite of products and, therefore, new products have accounted for an increasing portion of net revenues in all three years.

Each of the major revenue categories has historically varied as a percentage of net revenues and we expect this variability to continue in future periods. This variability is primarily due to the timing of the introduction of new products, the relative size and timing of individual licenses, as well as the complexity of the implementation, the resulting proportion of the maintenance and professional services components of these license transactions and the amount of client utilization of pricing and related data.

**LICENSE AND DEVELOPMENT FEES.** License and development fees revenues were \$36.6 million, \$23.7 million and \$17.0 million in 1998, 1997 and 1996, respectively, representing increases of 54% from 1997 to 1998 and 40% from 1996 to 1997. License and development fees revenues as a percentage of net revenues were 52%, 49% and 46% in 1998, 1997 and 1996, respectively. The relative increase from year to year was primarily due to continued demand for our suite of products and increased development fees. We typically license our products on a per server, per user basis with the price per site varying based on the selection of the products licensed and the number of authorized users. As we carry out larger implementations and continue our Internet Initiative, we may enter into further development contracts through which we earn development fees. In 1998, license revenues also increased due to an increase of multi-product transactions. We expect these transactions to continue to represent a significant proportion of revenues. In addition, to a lesser extent, the acquisition of MicroEdge also contributed to the increase of license and development fees revenue.

**MAINTENANCE AND OTHER RECURRING.** Maintenance and other recurring revenues were \$25.5 million, \$18.0 million and \$14.7 million in 1998, 1997 and 1996, respectively, representing increases of 42% from 1997 to 1998 and 23% from 1996 to 1997. Maintenance and other recurring revenues, as a percentage of net revenues, were 36%, 37% and 40% in 1998, 1997 and 1996, respectively. The growth in maintenance and other recurring revenues, in absolute dollars, in all periods was primarily due to a larger customer base and higher average maintenance fees. Higher average maintenance fees are due to the increased complexity of the maintenance services provided and increased client utilization of proprietary interfaces to access pricing and other data supplied by external parties. Our proprietary interfaces enable users of Axys to retrieve critical data from external sources, including pricing, corporate actions, and analytical and fundamental data via interfaces to information vendors, such as Interactive Data. The decrease in maintenance and other recurring revenues as a percentage of net revenues, from year to year, is due to license and development fees revenue increasing at a faster rate. In addition, in 1998, increased demand for implementation management services and the growth of our client base due to multi-product transactions contributed to the increase in maintenance and other recurring revenues. To a lesser extent, the acquisitions we made in 1998 also contributed to the rise in maintenance and other recurring revenues.

**PROFESSIONAL SERVICES AND OTHER.** Professional Services and other revenues were \$8.9 million, \$6.9 million and \$5.1 million in 1998, 1997 and 1996, respectively, representing increases of 29% from 1997 to 1998 and 35% from 1996 to 1997. Professional services and other revenues as a percentage of net revenues were relatively stable at 12% for 1998 and 14% for both 1996 and 1997. We expect professional services and other revenue to remain in the range of 12-14% as a percentage of net revenue in the future. The increase of \$2.0 million from 1997 to 1998 and \$1.8 million from 1996 to 1997 was due to additional consulting revenue associated with higher product sales activity and additional interface business resulting from

higher market demand for automated interfaces. In 1998, the increase was also attributed to increased consulting fees and, to a lesser extent, the acquisition of MicroEdge.

COST OF REVENUES

**COST OF LICENSE AND DEVELOPMENT FEES.** Cost of license and development fees revenues were \$2.9 million, \$601,000, and \$600,000 in 1998, 1997 and 1996, respectively, representing 8%, 3% and 4% of license and development fees revenues in these periods, respectively. Cost of license and development fees revenue consists primarily of the cost of product media and duplication, manuals, packaging materials and the direct labor involved in producing and distributing our software. The increase from 1997 to 1998 was primarily due to costs associated with increased development fee projects which have a higher cost of revenue.

**COST OF MAINTENANCE AND OTHER RECURRING.** Cost of maintenance and other recurring revenues were \$6.3 million, \$4.8 million and \$3.8 million in 1998, 1997 and 1996, respectively, representing 25%, 27% and 26% of maintenance and other recurring revenues in these periods, respectively. These costs are primarily comprised of the direct costs of providing technical support and other services for recurring revenues and the engineering costs associated with product updates. These expenses, in absolute dollars, increased in each year due to increased staffing required to support a larger customer base and more complex implementations. From 1997 to 1998, maintenance and other recurring revenues as a percentage of related revenues decreased due primarily to economies of scale.

**COST OF PROFESSIONAL SERVICES AND OTHER.** Cost of professional services and other revenues were \$3.9 million, \$3.6 million and \$2.5 million in 1998, 1997 and 1996, respectively, representing 44%, 53% and 49% of professional services and other revenues in these periods, respectively. These costs consist primarily of personnel related costs of the client services and support organization that are incurred in providing consulting, custom programming, conversions of data from clients' previous systems, and cost of hosting our client conferences. To the extent that such personnel are not fully utilized in consulting, training, conversion or custom programming projects, they are allocated to presales, marketing and engineering activities and the resultant costs are charged to operating expenses. Cost of professional services and other, in absolute dollars, increased year to year due to increase staffing necessary to provide services to an expanded installed base. Cost of professional services as a percentage of related revenues increased in 1997 from 1996 due to the increase in personnel dedicated to accelerating the conversion of existing clients to Axys Release 2. Cost of professional services as a percentage of related revenues decreased in 1998 due primarily to economies of scale.

#### OPERATING EXPENSES

**SALES AND MARKETING.** Sales and marketing expenses were \$23.5 million, \$15.6 million and \$12.4 million in 1998, 1997 and 1996, respectively, representing increases of 51% from 1997 to 1998 and 25% from 1996 to 1997. Sales and marketing expenses, as a percentage of net revenues remained steady at 33%, 32% and 34% in 1998, 1997 and 1996, respectively. Sales and marketing expenses consist primarily of costs of all personnel involved in the sales and marketing process, sales commissions, advertising and promotional materials, sales facilities expense, trade shows, and seminars. Sales and marketing expenses increased from 1997 to 1998 due to the continued increase in sales and marketing employees and increased marketing expenses related to new product introductions such as Advent Office, Advent Browser Reporting and Advent Warehouse as well as focused sales and marketing efforts towards our Internet Initiative. The increase from 1996 to 1997 was due to increased headcount and new product introductions.

**PRODUCT DEVELOPMENT.** Product development expenses were \$12.6 million, \$9.4 million and \$6.7 million in 1998, 1997 and 1996, respectively, representing increases of 33% from 1997 to 1998 and 40% from 1996 to 1997. Product development expenses as a percentage of net revenues were relatively stable at 18%, 19% and 18% in 1998, 1997 and 1996, respectively. Product development expenses consist primarily of personnel costs as we increase our product development efforts to accelerate the rate of new product introductions. Development costs subsequent to achievement of technological feasibility have not been significant during these periods and, accordingly, all such costs have been expensed as incurred. We expect product development expenses to continue to approximate 18-20% of net revenues as we continue to focus on new products and technology.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses were \$7.5 million, \$5.1 million and \$4.4 million in 1998, 1997 and 1996, respectively, representing increases of 47% from 1997 to 1998 and 16% from 1996 to 1997. General and administrative expenses as a percentage of net revenues were 11% in 1998 and 1997, and 12% in 1996. General and administrative expenses consist primarily of personnel costs for finance, administration, operations and general management,

as well as legal and accounting expenses. The increase from 1997 to 1998 and from 1996 to 1997 was primarily due to increased staffing. In addition, from 1997 to 1998, the cost of additional leased property to support the growth of the company also contributed to the increase.



PURCHASED RESEARCH AND DEVELOPMENT AND OTHER. In 1996, we incurred a charge of \$5.6 million in connection with the write-off of in-process research and development due to the acquisition of Data Exchange. In May 1998, we issued 170,000 shares of common stock for certain assets of the Grants Management Division of Blackbaud, Inc. and incurred a charge for in-process research and development and other expenses of \$5.4 million in connection with this transaction. In November 1998, we incurred a charge for in-process research and development of \$3.0 million in connection with the acquisition of Hub Data. In determining the amount of in-process research and development, we engaged an independent valuation firm to conduct an appraisal of the acquired assets. The intangible assets acquired, including in-process research and development expenses, were valued based on estimates of future net cash flows discounted to their present value at risk-adjusted rates of return.

The in-process research and development charge for Hub Data was determined by estimating the net cash flows from the sale of the resulting projects, discounted to net present value using a 25% discount rate and also assumed that the project was approximately 61% complete.

The Blackbaud transaction resulted in the acquisition of certain assets, but not an ongoing business. The assets acquired included rights to Blackbaud's 32-bit in-process technology, access to certain Blackbaud source code to be used in developing the new Advent products, a non-compete agreement and access to the Blackbaud customer base. The acquired technology was purchased for use in Advent's research and development "grant management" project and had no alternative future use.

In September 1998, the Chief Accountant of the SEC expressed concerns about the methodologies many companies were using in determining the amount of in-process research and development. A working group has been formed to study this issue, however at this time it is unknown what guidelines this group will generate and whether these guidelines will differ from the valuation methods traditionally employed. The SEC's concerns appear to focus on excluding from the valuations the costs of any efforts to complete development currently underway and an apportionment of cash flow estimates based on the stage of completion of in-process technology. The methodology used to value the intangible assets acquired in the Hub Data and Blackbaud transactions took into account these concerns raised by the SEC. Accordingly, we believe that the valuation methodology used by the independent appraiser is appropriate.

#### INTEREST INCOME, NET

Interest income was \$1,442,000, \$1,236,000 and \$1,165,000 in 1998, 1997 and 1996, respectively. Interest income, net consists of interest income, interest expense and miscellaneous non-operating income and expense items. The increases were due to greater interest income generated in 1997 and 1998 from higher cash and short-term investment balances.

#### INCOME TAXES

We had effective tax rates of 40%, 37% and 163% in 1998, 1997 and 1996, respectively. The effective tax rate in 1996 reflected the impact of the \$5.6 million charge for in-process research and development, which was not deductible for tax purposes. Excluding the effect of the charge on the 1996 rate, these rates differ from the federal statutory rate primarily due to state income tax, offset by certain research and development credits.

#### LIQUIDITY AND CAPITAL RESOURCES

We fund our operations primarily from cash generated from operations. Net cash provided by operating activities was \$15.6 million, \$7.7 million and \$1.6 million in 1998, 1997 and 1996, respectively. Net cash used in investing activities was \$8.5 million, \$14.1 million and \$5.6 million in 1998, 1997 and 1996, respectively. Included in the 1998 amount for cash used in investing activities was \$4.7 million for the acquisition of Hub Data and Portfolio Management Systems. The remaining amounts were used for acquisitions of fixed assets. Net cash provided by financing activities was \$2.5 million for 1998, primarily from proceeds from the issuance of common stock through our employee stock purchase plan. As of December 31, 1998, we had \$43.3 million in cash, cash equivalents and short-term investments. We believe that our existing cash and cash equivalents, short-term investments and cash expected to be generated from operations will be sufficient to meet our cash and capital requirements at least through fiscal 1999.

#### IMPACT OF YEAR 2000 ISSUE

To the best of our knowledge, the products we currently license have been designed to be and continue to be Year 2000 Compliant. Year 2000 Compliant means that our products will continue to operate substantially in accordance with published documentation on and after January 1, 2000. However, some of the computer programs used in our internal operations may not be Year 2000 Compliant

as these programs rely on time-sensitive software that was written using two digits rather than four to identify the applicable year. These programs may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

We have outlined a four-stage plan to comply with Year 2000 processing standards: assessment, renovation, validation and implementation. The assessment phase involves identifying the problem, identifying all systems at risk, prioritizing and developing contingency plans and identifying potential solutions and costs. The renovation phase involves applying the fixes to the identified problems and re-evaluating contingency plans once fixes have been made. The validation phase requires testing the fixes either by paper study or by a dry run of day-to-day activities. Implementation is the final phase in which we identify training needs, establish a training plan and start training people to properly execute the contingency plans. It is our intent to complete this process by late 1999.

We are currently in the assessment phase, having completed identifying all systems at risk. Our next step is to evaluate contingency plans and identify potential solutions and costs for all identified risks. The necessity of any contingency plan must be evaluated on a case-by-case basis and will vary considerably in nature depending on the Year 2000 issue it may need to address. We found that two servers and miscellaneous software need to be upgraded and phone switches need to be replaced at a cost of approximately \$100,000. Costs for replacing most software have been insignificant as most are under maintenance contracts or under warranty. To date, we have spent approximately \$16,000 on reallocation of personnel resources for the Year 2000 issue. In addition, we expect to reallocate personnel resources, at a cost of approximately \$65,000, to attend to this matter. We believe any other modifications deemed necessary will be made on a timely basis and estimate that the cost of such modifications will not have a material effect on our operating results.

Our expectation as to the extent and timeliness of modifications required in order to achieve Year 2000 compliance is a forward-looking statement subject to risks and uncertainties. Actual results may vary materially as a result of a number of factors, including, among others, those described in this paragraph. There can be no assurance that we will be able to successfully modify on a timely basis such products, services and systems to comply with Year 2000 requirements, nor that our contingency plans will prove effective in the event that we fail to achieve Year 2000 Compliance, nor that the cost of such procedures will not exceed original estimates, any of which could have a material adverse effect on our operating results. Additionally, we have initiated communications with third party suppliers of the major computers, software, and other equipment used, operated, or maintained by us to identify and, to the extent possible, to resolve issues involving the Year 2000 problem. However, we have limited or no control over the actions of these third party suppliers. Thus, while we expect that they will be able to resolve any significant Year 2000 problems with these systems, there can be no assurance that these suppliers will resolve any or all Year 2000 problems with these systems before the occurrence of a material disruption to the business of ours or any of their customers. Any failure of these third parties to resolve Year 2000 problems with their systems in a timely manner could have a material adverse effect on our business, financial condition, and results of operations. Additionally, during the next twelve months there is likely to be an increased customer focus on addressing Year 2000 issues, creating the risk that customers may reallocate capital expenditures to fix year 2000 problems of existing systems and may also delay implementation of any new software until sometime after January 1, 2000. Although we have not experienced the effects of such a trend to date, if customers defer purchases of our software because of such a reallocation, it could adversely effect our operating results.

#### NEW ACCOUNTING PRONOUNCEMENTS

In June of 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management has not yet evaluated the effects of this change on its operations. We will adopt SFAS No. 133 as required for our first quarterly filing of fiscal year 2000.

In December 1998, the Accounting Standards Executive Committee (AcSEC) released Statement of Position 98-9, or SOP 98-9, Modification of SOP 97-2, "Software Revenue Recognition," with Respect to Certain Transactions. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence (VSOE) of the fair values of all the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE

of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied.

The provisions of SOP 98-9 that extend the deferral of certain paragraphs of SOP 97-2 became effective December 15, 1998. These paragraphs of SOP 97-2 and SOP 98-9 will be effective for transactions that are entered into in fiscal years beginning after March 15, 1999. Retroactive application is prohibited. We are evaluating the requirements of SOP 98-9 and the effects, if any, on the our current revenue recognition policies.

#### FORWARD-LOOKING STATEMENTS

The discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains trend analysis and other forward-looking statements that are based on current expectations and assumptions made by management. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in the forward-looking statements as a result of the factors summarized below and other risks detailed from time to time in reports filed with the Securities and Exchange Commission, including our 1998 Annual Report to Stockholders, incorporated by reference in our 1998 Form 10-K Report. Additionally, the financial statements for the periods presented are not necessarily indicative of results to be expected for any future period, nor for the entire year.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. These risks include the potential for period to period fluctuations in operating results and the dependence on the successful development and market acceptance of new products and product enhancements on a timely, cost effective basis, as well as the stability of financial markets, maintenance of our relationship with Interactive Data and price and product/performance competition. In particular, our net revenues and operating results have varied substantially from period-to-period on a quarterly basis and may continue to fluctuate due to a number of factors. Our software products typically are shipped shortly after receipt of a signed license agreement. License backlog at the beginning of any quarter typically represents only a small portion of that quarter's expected revenues. In addition, as licenses into multi-user networked environments increase both in individual size and number, the timing and size of individual license transactions are becoming increasingly important factors in our quarterly operating results. The sales cycles for these transactions are often lengthy and unpredictable, and the ability to close large license transactions on a timely basis or at all could cause additional variability in our quarterly operating results. In addition, our results could be adversely impacted by generic issues surrounding market volatility, global economic uncertainty and reductions in capital expenditures by large customers. The target clients for our products include a range of organizations that manage investment portfolios, including investment advisors, brokerage firms, banks and hedge funds. In addition, we target corporations, public funds, universities and non-profit organizations, which also manage investment portfolios and have many of the same needs. The success of many of our clients is intrinsically linked to the health of the financial markets. We believe that demand for our products could be disproportionately affected by fluctuations, disruptions, instability or downturns in the financial markets which may cause clients and potential clients to exit the industry or delay, cancel or reduce any planned expenditures for investment management systems and software products.

Our future success will continue to depend upon our ability to develop new products, such as Moxy, Qube, and Geneva, that address the future needs of our target markets and to respond to emerging industry standards and practices. We are directing a significant amount of our product development efforts to the on-going development of Geneva. The failure to achieve widespread market acceptance of Geneva on a timely basis would adversely affect our business and operating results. To take advantage of the Internet, we have launched an Internet initiative whereby we are developing services, both announced and unannounced, to bring Internet-based products and services to clients. The first of these services, Rex, was launched during the second quarter of 1997. The second is the Advent Browser Reporting product which was launched in the third quarter of 1998. As we begin development of new products and services under the Internet initiative, we have and will continue to enter into development agreements with information providers, clients, or other companies in order to accelerate the delivery of new products and services. There can be no assurance that we will be successful in marketing Rex, Advent

Browser Reporting or in developing other Internet services. Our failure to do so could adversely affect our business and operating results.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

December 31,	1998	1997
(in thousands, except per share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,602	\$ 26,025
Short-term investments	7,682	10,031
Accounts receivable, net of allowance for doubtful accounts of \$362 in 1998 and \$265 for 1997	\$17,452	12,226
Prepaid expenses and other	2,010	1,391
Deferred income taxes	1,900	1,418
Total current assets	64,646	51,091
Fixed assets, net	11,433	7,424
Other assets, net	11,131	770
Total assets	\$ 87,210	\$ 59,285
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,793	\$ 814
Accrued liabilities	6,270	2,977
Deferred revenues	14,511	6,832
Income taxes payable	3,924	1,632
Total current liabilities	26,498	12,255
Long-term liabilities:		
Other liabilities	537	537
Total liabilities	27,035	12,792
Stockholders' equity:		
Preferred Stock, \$0.01 par value Authorized: 2,000 shares Issued and outstanding: none	-	-
Common stock, \$0.01 par value Authorized: 40,000 shares Issued and outstanding: 8,209 shares in 1998 and 7,582 shares in 1997	82	76
Additional paid-in-capital	48,154	37,776
Retained earnings	11,939	8,641
Total stockholders' equity	60,175	46,493
Total liabilities and stockholders' equity	\$ 87,210	\$ 59,285

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

CONSOLIDATED STATEMENTS OF OPERATIONS

Year Ended December 31,	1998	1997	1996
(in thousands, except per share data)			
REVENUES:			
License and development fees	\$ 36,588	\$ 23,710	\$ 16,951
Maintenance and other recurring	25,539	18,042	14,707
Professional services and other	8,871	6,861	5,086
Net revenues	70,998	48,613	36,744
COST OF REVENUES:			

License and development fees	2,931	601	600
Maintenance and other recurring	6,261	4,832	3,793
Professional services and other	3,874	3,638	2,513
	-----	-----	-----
Total cost of revenues	13,066	9,071	6,906
	-----	-----	-----
Gross margin	57,932	39,542	29,838
	-----	-----	-----
OPERATING EXPENSES:			
Sales and marketing	23,465	15,580	12,446
Product development	12,582	9,439	6,731
General and administrative	7,533	5,125	4,422
Purchased research and development and other	8,440	-	5,648
	-----	-----	-----
Total operating expenses	52,020	30,144	29,247
	-----	-----	-----
Income from operations	5,912	9,398	591
Interest income, net	1,442	1,236	1,165
	-----	-----	-----
Income before income taxes	7,354	10,634	1,756
Provision for income taxes	2,955	3,921	2,855
	-----	-----	-----
Net income (loss)	\$ 4,399	\$ 6,713	\$ (1,099)
	=====	=====	=====

NET INCOME (LOSS) PER SHARE DATA

DILUTED			
Net income (loss) per share	\$ 0.51	\$ 0.84	\$ (0.16)
Shares used in per share calculations	8,703	8,017	7,070
Basic			
Net income (loss) per share	\$ 0.55	\$ 0.89	\$ (0.16)
Shares used in per share calculations	8,066	7,521	7,070

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	Common Shares	Stock Amount	Additional Paid in Capital	Retained Earnings	Total Equity
-----					
(in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1995	6,873	\$ 68	\$ 31,202	\$ 3,314	\$ 34,584
Exercise of stock options	383	4	702		706
Tax benefit from exercise of stock options			2,175		2,175
Common stock issued under employee stock purchase plan	53	1	982		983
Pooling of interests with Bold Software	35	-		(287)	(287)
Net loss				(1,099)	(1,099)
	-----	-----	-----	-----	-----
Balances, December 31, 1996	7,344	73	35,061	1,928	37,062
	-----	-----	-----	-----	-----
Exercise of stock options	200	2	1,143		1,145
Tax benefit from exercise of stock options			704		704
Common stock issued under employee stock purchase plan	38	1	868		869
Net income				6,713	6,713
	-----	-----	-----	-----	-----
Balances, December 31, 1997	7,582	76	37,776	8,641	46,493
	-----	-----	-----	-----	-----
Exercise of stock options	154	1	1,580		1,581
Tax benefit from exercise of stock options			795		795
Common stock issued under employee stock purchase plan	38	1	945		946
Pooling of interest with MicroEdge	250	3		(1,101)	(1,098)
Shares issued in connection with acquisition of HubData	15	-	546		546
Shares issued in connection with acquisition of Blackbaud	170	1	6,512		6,513

Net income				4,399	4,399
Balances, December 31, 1998	8,209	\$ 82	\$ 48,154	\$ 11,939	\$ 60,175

</TABLE>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>

December 31,	1998	1997	1996
(in thousands)	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 4,399	\$ 6,713	\$ (1,099)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Purchased research and development and other	7,511	-	5,648
Depreciation and amortization	2,559	1,970	1,528
Provision for doubtful accounts	471	248	(15)
Deferred income taxes	(3,514)	(267)	247
Deferred rent	-	(62)	129
Cash provided by (used in) operating assets and liabilities:			
Accounts receivable	(5,521)	(3,975)	(3,625)
Prepaid and other current assets	(401)	(789)	(213)
Accounts payable	539	168	(885)
Accrued liabilities	1,220	350	234
Deferred revenues	6,403	1,761	(2,130)
Income taxes payable	3,006	1,565	1,780
Net liabilities assumed in pooling of interests with Microedge	(1,101)	-	-
Net cash provided by operating activities	15,571	7,682	1,599
Cash flows from investing activities:			
Net cash used in acquisition of the DX Group	-	-	(3,963)
Net cash used in acquisition of Hub Data, net of cash acquired	(4,279)	-	-
Net cash used in acquisition of Portfolio Management Systems, net of cash acquired	(446)	-	-
Acquisition of fixed assets	(6,186)	(5,290)	(1,384)
Proceeds from sale of fixed assets	60	-	-
Purchases of short-term investments	(4,880)	(10,041)	(1,167)
Maturities of short-term investments	7,229	1,183	1,160
Deposits and other	(19)	-	(287)
Net cash used in investing activities	(8,521)	(14,148)	(5,641)
Cash flows from financing activities:			
Proceeds from exercise of stock options	1,581	1,145	706
Proceeds from issuance of common stock	946	869	983
Payment of note issued in acquisition of the DX Group			(800)
Payment of debt assumed in acquisition of the DX Group			(288)
Net cash provided by financing activities	2,527	2,014	601
Net increase (decrease) in cash and cash equivalents	9,577	(4,452)	(3,441)
Cash and cash equivalents at beginning of year	26,025	30,477	33,918
Cash and cash equivalents at end of year	\$ 35,602	\$ 26,025	\$ 30,477
Supplemental disclosure of cash flow information:			
Cash paid for income taxes during year	\$ 2,888	\$ 2,515	\$ 1,012
Issuance of common stock shares for the acquisition of Blackbaud:	6,513		
Issuance of common stock shares for the acquisition of Hub Data:	546		

</TABLE>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**OPERATIONS** Advent provides stand-alone and client/server software products, data interfaces and related maintenance and services that automate, integrate and support certain mission-critical functions of the front, middle and back office of investment management organizations. Advent's clients vary significantly in size and assets under management and include investment advisors, brokerage firms, banks, hedge funds, corporations, public funds, foundations, universities and non-profit organizations.

**PRINCIPLES OF CONSOLIDATION** The consolidated financial statements include the accounts of Advent and its wholly-owned subsidiaries. All intercompany transactions and amounts have been eliminated.

**FINANCIAL INSTRUMENTS** Cash equivalents comprise highly liquid investments purchased with a remaining maturity of 90 days or less. These investments are maintained with major financial institutions.

Short-term investments are comprised of various marketable securities carried at cost. These investments are maintained with major financial institutions. Securities are considered to be held-to-maturity. Amounts reported for short-term investments are considered to approximate the fair value based on comparable market information available at the respective balance sheet dates. Realized investment gains and losses have not been significant.

The amounts reported for cash equivalents, receivables, accounts payable, accrued liabilities and other financial instruments are considered to approximate their market values based on comparable market information available at the respective balance sheet dates, and their short-term nature.

Financial instruments that potentially subject Advent to concentrations of credit risks comprise, principally, cash, short-term investments, and trade accounts receivable. Advent invests excess cash through banks, mutual funds, and brokerage houses primarily in highly liquid investments with remaining maturities of 90 days or less and has investment policies and procedures which are reviewed periodically to minimize credit risk. Advent does not require collateral from its customers but performs ongoing credit evaluations and maintains reserves for potential credit losses which historically have been within management's estimates.

**DEPRECIATION AND AMORTIZATION** Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the related assets, generally five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful life of the assets or the remaining lease term.

**CAPITALIZED SOFTWARE** Costs incurred for software development prior to technological feasibility are expensed as product development costs in the period incurred. Once the point of technological feasibility is reached, production costs are capitalized. Such capitalized software costs were not material in 1998, 1997 and 1996.

**REVENUE RECOGNITION** Advent licenses application software programs and offers annual maintenance programs which provides for technical support and updates to software products. Advent's development agreements generally provide for development of technologies and products which are expected to become part of Advent's product or product offerings in the future. Certain of these agreements may require royalty payments based on future sales of the developed products. Such amounts will be included in costs of goods sold as accrued. Advent also offers customers on-site consulting services, training, custom programming, and other services.

The Company adopted the provisions of Statement of Position 97-2, or SOP 97-2, Software Revenue Recognition, as amended by Statement of Position 98-4, Deferral of the Effective Date of Certain Provisions of SOP 97-2, effective January 1, 1998. SOP 97-2 supersedes Statement of Position 91-1, Software Revenue Recognition, and delineates the accounting for software product and maintenance revenue. Under SOP 97-2, the Company recognizes license revenue upon shipment of a product to the client if a signed contract exists, the fee is fixed and determinable and collection of resulting receivables is probable. For contracts with multiple obligations (e.g. deliverable and undeliverable products, maintenance and other services), the Company allocates revenue to each component of the contract based on objective evidence of its fair value, which is specific to the Company, or for products not being sold separately, the price established by management. The Company recognizes revenue allocated to undelivered products when the criteria for product revenue set forth above are met. The Company recognizes revenue allocated to maintenance fees for ongoing customer support and product updates ratably.

over the period of the maintenance contract. Payments for maintenance fees are generally made in advance and are non-refundable. Revenues for interface and other development and custom programming are recognized using the percentage of completion method of accounting based on the costs incurred to date compared with the estimated cost of completion. Revenues from professional services are recognized as work is performed.

**NET INCOME (LOSS) PER SHARE** Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for that period. Diluted net income (loss) per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential shares consist of incremental common shares issuable upon exercise of stock options and warrants and conversion of preferred stock for all periods.

**RECLASSIFICATIONS** In 1998, certain reclassifications were made to the 1997 financial statement amounts to conform to the 1998 presentation. These reclassifications had no impact on net income (loss), working capital, or cash flows.

**COMPREHENSIVE INCOME** Advent has adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", effective January 1, 1998. This statement requires the disclosure of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income is the change in equity from transactions and other events and circumstances other than those resulting from investments by owners and distributions to owners. There are no significant components of comprehensive income excluded from net income; therefore, no separate statement of comprehensive income has been presented.

**SEGMENT INFORMATION** The Company has adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which is effective for fiscal years beginning after December 31, 1997. SFAS No. 131 supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 changes current practice under SFAS No. 14 by establishing a new framework on which to base segment reporting and introduces requirements for interim reporting of segment information.

The Company has determined that it has a single reportable segment consisting of the development, marketing and sale of stand-alone and client/server software products, data interfaces and related maintenance and services that automate, integrate and support certain mission critical functions of investment management organizations.

Management uses one measurement of profitability and does not disaggregate its business for internal reporting. The Company's international operations in 1998, 1997 and 1996 have not been material to revenue or net income.

**NEW ACCOUNTING PRONOUNCEMENTS** In June of 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Management has not yet evaluated the effects of this change on its operations. The Company will adopt SFAS No. 133 as required for its first quarterly filing of fiscal year 2000.

In December 1998, the Accounting Standards Executive Committee (AcSEC) released Statement of Position 98-9, or SOP 98-9, Modification of SOP 97-2, "Software Revenue Recognition," with Respect to Certain Transactions. SOP 98-9 amends SOP 97-2 to require that an entity recognize revenue for multiple element arrangements by means of the "residual method" when (1) there is vendor-specific objective evidence (VSOE) of the fair values of all the undelivered elements that are not accounted for by means of long-term contract accounting, (2) VSOE of fair value does not exist for one or more of the delivered elements, and (3) all revenue recognition criteria of SOP 97-2 (other than the requirement for VSOE of the fair value of each delivered element) are satisfied.

The provisions of SOP 98-9 that extend the deferral of certain paragraphs of SOP 97-2 became effective December 15, 1998. These paragraphs of SOP 97-2 and SOP 98-9 will be effective for transactions that are entered into in fiscal years beginning after March 15, 1999. Retroactive application is prohibited. The Company is evaluating the requirements of SOP 98-9 and the effects, if any, on the Company's current revenue recognition policies.

**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, the 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. These estimates are based on information available as of the date of the financial statements. Actual results could differ from those estimates.

**ACCOUNTING FOR LONG-LIVED ASSETS** The Company reviews property, equipment, goodwill and other intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of its carrying amount to future net cash flows the assets are expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Intangibles are amortized over their estimated useful lives (typically five to ten years).

**FOREIGN CURRENCY TRANSLATION** The functional currency of the Company's foreign subsidiary is the local foreign currency. All assets and liabilities denominated in foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenues, costs and expenses are translated at average rates of exchange prevailing during the period. Translation adjustments resulting from translation of intercompany accounts are accumulated as a separate component of stockholders' equity and have not been significant. Gains and losses resulting from foreign currency transactions are included in the consolidated statements of operations and have not been significant.

## 2. ACQUISITIONS

In February 1996, Advent acquired Data Exchange, Inc. (the DX Group), a private company based in New York, for \$4.0 million in cash and an \$800,000 note. This note was paid during the third quarter of 1996 and did not bear interest. The transaction was accounted for as a purchase. Advent incurred a one-time charge of \$5.6 million in connection with the write-off of in-process research and development. This expense was recorded in purchased research and development and other expenses. We believe that the technology acquired had not reached technological feasibility and had no alternative future use.

In November 1996, Advent issued 35,000 shares of common stock in exchange for all of the outstanding shares of Bold Software, Inc., a private software development company based in New York. This business combination was accounted for as a pooling of interests. Prior year amounts have not been restated to include Bold Software's results of operations as such operations were immaterial. As a result of this business combination, Advent introduced Advent Partner, a tax layering and partnership allocation solution which integrates with Axys.

In February 1998, Advent issued 250,000 shares of common stock in exchange for all of the outstanding shares of MicroEdge, Inc. MicroEdge is the leading provider of software products to foundations, corporations and other organizations to manage their grant-making activities. This business combination was accounted for as a pooling of interests, and the results of operations of MicroEdge are included in the Company's financial statements beginning January 1, 1998. The results of operations as well as the assets and liabilities of MicroEdge, in prior periods, were not material to the consolidated results of operations or financial position of Advent. Accordingly, the Company did not restate its financial statements for periods prior to January 1, 1998.

In May 1998, Advent issued 170,000 shares of common stock for certain assets of the Grants Management Division of Blackbaud, Inc. This acquisition combines the grants management product line of Blackbaud with MicroEdge. This transaction was accounted for as a purchase and the results of operations are included in the Company's financial statements beginning on the acquisition date. Advent incurred a charge for in-process research and development and other expenses of \$5.4 million in connection with this transaction. We believe that the technology acquired had not reached technological feasibility and had no alternative future use. Other intangibles of \$2.0 million were recorded in connection with this acquisition and are being amortized, using a straight-line method, over a period of 5 years.

In November 1998, Advent issued 15,000 shares of common stock and paid \$4.1 million in exchange for substantially all of the outstanding shares of Hub Data, Inc., a distributor of consolidated securities information and data to investment management organizations. Hub Data is located in Cambridge, MA and delivers services to over 240 institutional investment firms. This business combination was accounted for as a purchase and the results of operations for Hub Data are included in the Company's financial statements beginning on the acquisition date. Advent incurred a charge for in-process research and development expense of \$3.0 million in connection with this transaction. We believe that the technology acquired had not reached technological feasibility and had no alternative future use. As a result of net liabilities assumed and acquisition expenses of \$1.6 million, goodwill of \$3.2 million was recorded in connection with this transaction and is being amortized, using a straight-line method, over a period of 7 years.

In November 1998, Advent paid AUS \$583,000 (approximately US \$370,000) in exchange for all of the outstanding shares of Portfolio Management Systems Pty., Ltd., a distributor of Advent products in Australia. This business combination was accounted for as a purchase and the results of operations are included in the Company's financial statements beginning on the acquisition date. As a result of net liabilities assumed and acquisition expenses of \$2.0 million, goodwill of \$2.4 million was recorded in connection with this transaction and is being amortized, using a straight-line method, over a period of 10 years. Subsequent to the acquisition, the name of this subsidiary was changed to Advent Australia.

The results of operations of Blackbaud, Hub Data and Portfolio Management Systems in 1998 and 1997 were not material to the consolidated results of operations of Advent. Accordingly, no pro forma results are presented.

### 3. BALANCE SHEET DETAIL

The following is a summary of fixed assets:

December 31,	1998	1997
-----		
(in thousands)		
Computer Equipment	\$ 10,444	\$ 6,997
Leasehold Improvements	7,266	4,676
Furniture & Fixtures	978	837
Telephone System	943	672
	-----	-----
	19,631	13,182
Accumulated Depreciation	(8,198)	(5,758)
	-----	-----
Total fixed assets, net	\$ 11,433	\$ 7,424
	=====	=====

Depreciation expense was approximately \$2,250,000, \$1,728,000 and \$1,352,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The following is a summary of other assets:

December 31,	1998	1997
-----		
(in thousands)		
Goodwill, net of accumulated amortization of \$57	\$ 5,529	\$ -
Other Intangibles, net of accumulated amortization of \$202 in 1998 and \$423 in 1997	1,752	302
Deposits and other	526	176
Deferred Taxes	3,324	292
	-----	-----
Total other assets, net	\$ 11,131	\$ 770
	=====	=====

Amortization expense was approximately \$319,000, \$242,000 and \$181,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

The following is a summary of accrued liabilities:

December 31,	1998	1997
-----		
(in thousands)		
Salaries and benefits payable	\$ 2,624	\$ 1,577
Commissions payable	1,229	752
Sales taxes payable	1,212	300
Other	1,205	348
	-----	-----
Total accrued liabilities	\$ 6,270	\$ 2,977
	=====	=====

### 4. Income Taxes

The provision for income taxes includes:

	Year Ended December 31,	
	1998	1997
		1996
	-----	

(in thousands)

Current			
Federal	\$ 5,008	\$ 3,089	\$ 1,994
State	1,461	815	577
Deferred			
Federal	(2,650)	26	227
State	(864)	(9)	57
	-----	-----	-----
Total	\$ 2,955	\$ 3,921	\$ 2,855
	=====	=====	=====

Advent's effective tax rate, as a percent of pre-tax income, differs from the statutory federal rate as follows:

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Statutory federal rate	35.0%	35.0%	34.0%
State taxes	5.3	7.6	23.8
Purchased research and development			109.4
Research and development tax credits	(4.4)	(3.0)	(5.1)
Other	4.3	(2.7)	0.5
	-----	-----	-----
Total	40.2%	36.9%	162.6%
	=====	=====	=====

In 1996, the effective tax rate was higher due to the \$5.6 million write-off of in-process research and development and other expenses. It was not deductible for tax purposes.

Deferred income taxes reflect the net tax effects of temporary differences between the basis of assets and liabilities for financial reporting and income tax purposes. The approximate tax effects of temporary differences which give rise to net deferred tax assets are:

	Year Ended December 31,	
	1998	1997
	-----	-----
(in thousands)		
Current:		
Deferred revenue	\$ 515	\$ 610
Accrued liabilities	725	519
Reserves	543	211
State taxes	117	78
	-----	-----
	1,900	1,418
	-----	-----
Noncurrent:		
Depreciation and amortization	3,149	74
Deferred rent	175	218
	-----	-----
	3,324	292
	-----	-----
Total deferred tax assets	\$ 5,224	\$ 1,710
	=====	=====

##### 5. Commitments

Advent leases office space and equipment under noncancelable operating lease agreements, which expire at various dates through October 2009. Some operating leases contain escalation provisions for adjustments in the consumer price index. Advent is responsible for maintenance, insurance, and property taxes and has five-year extension options on its primary facilities leases. Future minimum payments under the noncancelable operating leases consist of the following at December 31, 1998 (in thousands):

1999	\$ 3,966
2000	5,062
2001	5,184
2002	5,248
2003	5,300
2004 and thereafter	23,047
	-----

Total minimum lease  
payments \$ 47,807  
=====

Rent expense for 1998, 1997, and 1996 was approximately \$2,494,000, \$1,484,000 and \$1,159,000, respectively.

6. Employee Benefit Plans

401(k) Plan

Advent has a 401(k) deferred savings plan covering substantially all employees. Employee contributions, limited to 15% of compensation, are matched 50% by Advent, up to a maximum of \$500 per employee per year. Matching

contributions by Advent in 1998, 1997 and 1996 were \$117,000, \$103,000 and \$73,000, respectively. In addition to the employer matching contribution, Advent may make a profit sharing contribution at the discretion of the Board of Directors. Advent made profit sharing contributions of \$143,000, \$121,000 and \$87,000 in 1998, 1997 and 1996, respectively.

1995 Employee Stock Purchase Plan

All individuals employed by Advent are eligible to participate in the Employee Stock Purchase Plan (Purchase Plan) if they are employed by Advent for at least 20 hours per week and at least five months per year. The Purchase Plan permits eligible employees to purchase Advent's common stock through payroll deductions at a price equal to 85% of the lower of the closing sale price for Advent's common stock reported on the Nasdaq National Market at the beginning and the end of each six-month offering period. In any calendar year, eligible employees can withhold up to 10% of their salary and certain variable compensation. A total of 300,000 shares of common stock have been reserved for issuance under the Purchase Plan of which 129,000 shares have been issued. Approximately, 38,000, 38,000 and 53,000 shares were sold through the Purchase Plan in 1998, 1997 and 1996, respectively.

7. Net Income (Loss) Per Share

<TABLE>  
<CAPTION>

Year ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Net income (loss)	\$ 4,399	\$ 6,713	\$ (1,099)
Reconciliation of shares used in basic and diluted per share calculations			
BASIC			
Weighted average common shares outstanding	8,066	7,521	7,070
Shares used in basic net income (loss) per share calculation	8,066	7,521	7,070
Basic net income (loss) per share	\$ 0.55	\$ 0.89	\$ (0.16)
DILUTED			
Weighted average common shares outstanding	8,066	7,521	7,070
Dilutive effect of stock options and warrants	637	496	-
Shares used in diluted net income (loss) per share calculation	8,703	8,017	7,070
Diluted net income (loss) per share	\$ 0.51	\$ 0.84	\$ (0.16)
Options outstanding at December 31, 1998, 1997 and 1996 not included in computation of diluted EPS because the exercise price was greater than the average market price	108,077	419,123	32,846
Price range of options not used in diluted EPS calculation	\$37.50 - \$42.63	\$28.00 - \$32.75	\$29.75 - \$32.75

</TABLE>

8. Stockholders' Equity

Stock Options

Under Advent's 1992 Stock Plan (the Plan) Advent may grant options to purchase common stock to employees and consultants. Options granted may be incentive stock options or nonstatutory stock options and shall be granted at a price not less than fair market value on the date of grant. Fair market value (as defined in the Plan) and the vesting of these options shall be determined by the Board of Directors. The options generally vest over 5 years and expire no later than 10 years from the date of grant. Unvested options on termination of employment are canceled and returned to the Plan.

The activity under the Plan was as follows:

<TABLE>

<CAPTION>

	Outstanding Options				
	Available for Grant	Number of Options	Price Per Share	Aggregate Exercise Price	Weighted Average Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1995	153,000	1,026,000	\$0.63 - 12.00	\$ 4,160,000	\$ 4.05
Authorized	400,000	-	-	-	-
Options granted	(412,000)	412,000	19.50 - 32.00	10,376,000	25.18
Options exercised	-	(283,000)	0.63 - 12.00	(642,000)	2.27
Options canceled	58,000	(58,000)	1.00 - 19.50	(754,000)	13.00
Balances, December 31, 1996	199,000	1,097,000	0.63 - 32.00	13,140,000	11.98
Authorized	600,000	-	-	-	-
Options granted	(836,000)	836,000	25.00 - 28.75	21,737,000	26.00
Options exercised	-	(198,000)	0.63 - 19.50	(853,000)	4.31
Options canceled	145,000	(145,000)	1.00 - 32.00	(2,902,000)	20.01
Balances, December 31, 1997	108,000	1,590,000	0.63 - 32.00	31,122,000	19.57
Authorized	500,000	-	-	-	-
Options granted	(666,000)	666,000	27.50 - 42.63	22,004,000	33.04
Options exercised	-	(151,000)	0.63 - 32.00	(1,372,000)	9.09
Options canceled	107,000	(107,000)	5.00 - 42.63	(2,594,000)	24.22
Balances, December 31, 1998	49,000	1,998,000	\$1.00 - 42.63	\$ 49,160,000	\$ 24.60

</TABLE>

At December 31, 1998, 1997 and 1996, 571,000, 331,000 and 241,000 options outstanding were exercisable with an aggregate exercise price of \$9,691,000, \$3,190,000 and \$957,000, respectively.

In November 1998, the Board of Directors approved the 1998 Nonstatutory Stock Option Plan ("Nonstatutory Plan") and reserved 100,000 shares of common stock for issuance thereunder. Under Advent's 1998 Nonstatutory Plan, Advent may grant options to purchase common stock to employees and consultants, excluding persons who are executive officers and directors. Options granted are nonstatutory stock options and shall be granted at a price not less than fair market value on the date of grant. Fair market value (as defined in the Nonstatutory Plan) and the vesting of these options shall be determined by the Board of Directors. The options generally vest over 5 years and expire no later than 10 years from the date of grant. Unvested options on termination of employment are canceled and returned to the Nonstatutory Plan. The activity under the Nonstatutory Plan was as follows:

<TABLE>

<CAPTION>

	Outstanding Options				
	Available for Grant	Number of Options	Price Per Share	Aggregate Exercise Price	Weighted Average Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>
Authorized	100,000	-	\$ -	\$ -	\$ -
Options granted	(92,000)	92,000	37.25	3,423,000	37.25
Options exercised	-	-	-	-	-
Options canceled	-	-	-	-	-

Balances, December 31, 1998	8,000	92,000	\$ 37.25	\$3,423,000	\$ 37.25
-----------------------------	-------	--------	----------	-------------	----------

</TABLE>

Of the 92,000 options under the Nonstatutory Plan outstanding at December 31, 1998, none were exercisable.

In addition to the Plan and the Nonstatutory Plan, Advent had granted options to purchase common stock to employees or consultants under special arrangements. These options have an exercise price of \$1.00 per share. There were 7,000, 10,000 and 12,000 of these options outstanding at December 31, 1998, 1997 and 1996, respectively. The change in each period was a result of the exercise of 3,000, 2,000 and 4,000 options during 1998, 1997 and 1996, respectively. The shares outstanding at December 31, 1998 are fully vested.

Advent's 1995 Director Option Plan (the Director Plan) provides for the grant of nonstatutory stock options to non-employee directors of Advent (Outside Directors). Under the Director Plan, each Outside Director is granted a non-qualified option to purchase 10,000 shares on the last to occur of the date of effectiveness of the Director Plan or the date upon which such person first becomes a director with an exercise price equal to the fair market value of Advent's common stock as of the date of the grant. In subsequent years, each Outside Director is automatically granted an option to purchase 2,000 shares on December 1 with an exercise price equal to the fair value of Advent's common stock on that date. Options granted under the Director Plan vest over a five year period and have a ten year term.

The activity under the Director Plan was as follows:

<TABLE>  
<CAPTION>

	Outstanding Options				
	Available for Grant	Number of Options	Price Per Share	Aggregate Exercise Price	Weighted Average Price Per Share
<S>	<C>	<C>	<C>	<C>	<C>
Balances, December 31, 1995	45,000	30,000	\$ 18.00	\$ 540,000	\$ 18.00
Options granted	(6,000)	6,000	32.75	196,500	32.75
Balances, December 31, 1996	39,000	36,000	18.00 - 32.75	736,500	20.45
Options exercised	-	(2,800)	18.00	(50,400)	18.00
Options granted	(24,000)	24,000	24.88 - 25.00	599,500	24.98
Options canceled	9,200	(9,200)	18.00 - 32.75	(194,500)	21.14
Balances, December 31, 1997	24,200	48,000	18.00 - 32.75	1,091,100	22.73
Options granted	(8,000)	8,000	38.75	310,000	38.75
Options exercised	-	-	-	-	-
Options canceled	-	-	-	-	-
Balances, December 31, 1998	16,200	56,000	\$18.00 - 38.75	\$ 1,401,100	\$ 25.02

</TABLE>

At December 31, 1998, 1997 and 1996, 19,000, 8,300 and 6,000 options outstanding were exercisable with an aggregate exercise price of \$403,000, \$150,000 and \$108,000, respectively.

In addition to the Director Plan, Advent granted options, prior to 1994, to an Outside Director for the purchase of 96,000 shares of common stock with an exercise price of \$0.63 per share. These options were exercised during 1996.

At December 31, 1998, Advent had reserved 2,232,000 shares of common stock for the exercise of stock options under all of its option plans.

Advent has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation cost has been recognized for Advent's stock option plans. If compensation had been determined based on the fair value at the grant date for awards in 1998, 1997 and 1996 consistent with the provisions of SFAS No. 123, Advent's net income (loss) and net income (loss) per share for the year ended December 31, 1998, 1997 and 1996, respectively, would have been as follows:

1998                      1997                      1996

Net income (loss) - as reported	\$ 4,399	\$ 6,713	\$ (1,099)
Net income (loss) - pro forma	\$ 1,380	\$ 5,026	\$ (1,680)

PER SHARE DATA

DILUTED

Net income (loss) per share - as reported	\$ 0.51	\$ 0.84	\$ (0.16)
Net income (loss) per share - pro forma	\$ 0.16	\$ 0.63	\$ (0.24)

BASIC

Net income (loss) per share - as reported	\$ 0.55	\$ 0.89	\$ (0.16)
Net income (loss) per share - pro forma	\$ 0.17	\$ 0.67	\$ (0.24)

Such pro forma disclosures may not be representative of future compensation costs because options vest over several years and additional grants are made each year.

The weighted-average grant-date fair value of options granted were \$16.81, \$14.50 and \$14.50 per option for the years ended December 31, 1998, 1997 and 1996, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes valuation model with the following weighted average assumptions:

	1998	1997	1996
Risk-free interest rate	4.9%	5.99%	6.03%
Volatility	60.4	56.91	55.04
Expected life	5 years	5 years	5 years
Expected dividends	None	None	None
Average turnover rate	8%	8%	8%

The risk-free interest rate was calculated in accordance with the grant date and expected life. Volatility was calculated using an analysis of an Advent peer group of publicly traded companies. The weighted average expected life was calculated based on the vesting period and the exercise behavior of the participants.

The fair value for the Employee Stock Purchase Plan rights were also estimated at the date of grant using a Black-Scholes options pricing model with the following assumptions for 1998, 1997 and 1996: risk-free interest rates of 4.9%, 5.99% and 6.03%, respectively; dividend yield of 0%; volatility factors of 60%, 57% and 55% for 1998, 1997 and 1996, respectively; and a six-month expected life. The weighted average fair value of the ESPP rights granted in 1998, 1997 and 1996 was \$9.61, \$8.96 and \$9.84, respectively.

The options outstanding and currently exercisable by exercise price at December 31, 1998 are as follows:

<TABLE>

<CAPTION>

Exercise Prices <S>	Options Outstanding			Options Exercisable	
	Number Outstanding <C>	Weighted Average Remaining Contractual Life <C>	Weighted Average Exercise Price <C>	Number Exercisable <C>	Weighted Average Exercise Price <C>
\$1.00 - \$6.50	373,000	5.73	\$ 4.79	265,000	\$ 4.34
\$18.00 - \$25.88	624,000	8.67	24.41	160,000	23.69
\$27.50 - \$38.75	1,025,000	9.01	30.61	169,000	29.07
\$38.75 - \$42.63	131,000	9.33	42.63	3,000	42.63
	2,153,000	8.37	\$ 25.07	597,000	\$ 16.91

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
Advent Software, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Advent Software, Inc. and its subsidiaries at December 31, 1998 and December 31, 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

San Francisco, California  
January 15, 1999

SELECTED FINANCIAL DATA

SELECTED ANNUAL DATA

<TABLE>

<CAPTION>

Year Ended December 31,	1998*	1997	1996*	1995	1994*
-----					
(in thousands, except per share data)					
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS					
Net revenues	\$ 70,998	\$ 48,613	\$ 36,744	\$ 25,957	\$ 20,101
Income from operations	5,912	9,398	591	4,158	1,648
Net income (loss)	4,399	6,713	(1,099)	2,819	1,064
NET INCOME (LOSS) PER SHARE DATA					
DILUTED					
Net income (loss) per share	0.51	0.84	(0.16)	0.46	0.18
Shares used in per share calculation**	8,703	8,017	7,070	6,160	5,844
BASIC					
Net income (loss) per share	0.55	0.89	(0.16)	0.82	0.36
Shares used in per share calculation**	8,066	7,521	7,070	3,455	2,925
Balance Sheet					
Working capital	\$ 38,148	\$ 38,836	\$ 32,775	\$ 31,008	\$ 5,093
Total assets	87,210	59,285	46,691	44,750	15,594
Long-term liabilities	537	537	599	470	708
Stockholders' equity	60,175	46,493	37,062	34,584	8,291

</TABLE>

SELECTED QUARTERLY DATA

<TABLE>

<CAPTION>

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
-----				
(in thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>



1998*				
Net revenues	\$ 14,049	\$ 16,706	\$ 18,604	\$ 21,638
Income (loss) from operations	1,622	(2,155)	4,288	2,159
Net income (loss)	1,258	(1,582)	3,062	1,662
Net income (loss) per share - Diluted	0.15	(0.20)	0.35	0.19
Net income (loss) per share - Basic	0.16	(0.20)	0.38	0.20

1997				
Net revenues	\$ 9,553	\$ 11,699	\$ 12,958	\$ 14,403
Income from operations	1,121	2,169	2,817	3,291
Net income	851	1,522	2,007	2,333
Net income per share - Diluted	0.11	0.19	0.25	0.29
Net income per share - Basic	0.12	0.20	0.27	0.31

</TABLE>

PRICE RANGE OF COMMON STOCK

NASDAQ National Market Symbol "ADVS"	High	Low
-----		
Year Ended December 31, 1998		
First Quarter	\$ 48	\$ 26 1/4
Second Quarter	48 1/8	33 1/2
Third Quarter	52 1/2	30
Fourth Quarter	48 5/8	19 13/16
Year Ended December 31, 1997		
First Quarter	\$ 30 3/4	\$ 20 1/4
Second Quarter	33	18 5/8
Third Quarter	33	25 1/4
Fourth Quarter	31 3/4	22 1/2

\* In 1998, 1996 and 1994, Advent recognized charges of \$8.4 million, \$5.6 million and \$1.0 million, respectively, in connection with the write-off of purchased research and development and other expenses. Excluding these charges, net income per share - diluted would have been \$1.18, \$0.58 and \$0.27 in 1998, 1996 and 1994, respectively. For further explanation, see "Purchased Research and Development and Other" in Management's Discussion and Analysis of Financial Condition and Results of Operations on page 40.

\*\* For an explanation of shares used in per share calculations, see Note 1 of the Notes to Consolidated Financial Statements.

STOCK INFORMATION

Advent's common stock has traded on the Nasdaq National Market under the symbol ADVS since its initial public offering on November 15, 1995.

Advent has not paid cash dividends on its common stock and presently intends to continue this policy in order to retain its earnings for the development of its business.

TRANSFER AGENT & REGISTRAR

EquiServe is the Transfer Agent and Registrar of Advent's common stock and maintains stockholder accounting records. Inquiries regarding lost certificates, consolidation of accounts, and changes in address, name or ownership should be addressed to:

EquiServe  
 Boston EquiServe Division  
 Shareholder Services  
 150 Royall Street  
 Canton, MA 02021  
 Telephone: (781) 575-3120  
 Internet: <http://www.equiserve.com>

## SUBSIDIARIES OF ADVENT SOFTWARE, INC.

Name	State of Incorporation
-----	-----
MicroEdge, Inc.	New York
Advent Technology, Inc.	Delaware
Bold Software, Inc.	New York
Advent Australia	Australia
HubData, Inc.	Massachusetts
Data Exchange, Inc.	Pennsylvania
Second Street Securities	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Advent Software, Inc. on Form S-8 (File No.'s 333 - 918 and 333-28725) of our report dated January 15, 1999, on our audit of the consolidated financial statements of Advent Software, Inc. as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997 and 1996, which report is incorporated by reference in this report on Form 10-K, and our report dated January 15, 1999, on our audit of the financial statement schedule, which report is included in this Form 10-K.

PricewaterhouseCoopers LLP

San Francisco, California

March 26, 1999

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