

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**  
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### FILER

#### **DENDRITE INTERNATIONAL INC**

CIK: **880321** | IRS No.: **222786386** | State of Incorporation: **NJ** | Fiscal Year End: **1231**  
Type: **10-K** | Act: **34** | File No.: **033-92434** | Film No.: **99574704**  
SIC: **7372** Prepackaged software

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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  
 TRANSITION REPORT PURSUANT TO SECTION  
13 OR 15(d) OF THE SECURITIES  
Exchange Act of 1934

For the transition period from

Commission File Number 0-26138

Dendrite International, Inc.  
(Exact name of registrant as specified in its Charter)

New Jersey 22-2786386  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

1200 Mt. Kemble Avenue  
Morristown, NJ 07960-6797  
973-425-1200

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

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

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

Title of Class  
Common Stock, no par value

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 time period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

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

The aggregate market value of the shares of the Common Stock held by  
nonaffiliates of the registrant was approximately \$406,081,037 based upon the  
average bid and ask price of the Common Stock, which was \$21.41 on March 23,  
1999. The number of shares of Common Stock outstanding on that date was  
22,956,497.

## DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT DESCRIPTION	10-K PART
Registrant's Notice of Annual Meeting of Shareholders and Proxy Statement for the 1999 fiscal year expected to be dated on or about April 15, 1999.	III

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Note: The reader should be aware that, unless otherwise indicated, for  
purposes of this Form 10-K, all share and per share data have been  
adjusted to reflect a two-for-one stock split of Dendrite's common  
stock, which became effective on August 21, 1998. Dendrite(R),  
ForceAnalyzeRx(TM), ForceCompanion(TM), ForceMultiplieRx(TM),  
ForceOne(R), ForcePharma(TM), J6(TM), J Force(TM), NOMAD'S(TM),  
SalesPlus(TM), Series 4(TM), Series 5(TM) and Series 6(TM) are either  
trademarks or registered trademarks of Dendrite International, Inc. All  
other servicemarks, trademarks and trade names referred to in this

prospectus are the property of their respective owners.

## PART I

### ITEM 1. BUSINESS.

#### GENERAL

We succeeded in 1991 to a business co-founded in 1986 by John E. Bailye, our current President and Chief Executive Officer. This business was established to provide comprehensive Sales Force Effectiveness or SFE solutions that would enable companies to manage, coordinate and control the activities of large sales forces in complex selling environments, primarily in the prescription-only pharmaceutical industry. Today, Dendrite is a leading worldwide supplier of a comprehensive range of sales force software products and support services to the pharmaceutical industry. We also supply our solutions to manufacturers of consumer packaged goods, which are branded, non-durable goods used by individual consumers. Our sales force effectiveness solutions are designed to help our customers increase sales and improve the profitability of their operations by allowing them to:

- improve their use of sales, customer and market information; and
- manage, coordinate and control their sales activities more efficiently in complex selling environments.

Historically, we have focused our solutions on large sales forces within the prescription-only pharmaceutical industry. We believe that our extensive knowledge of the complex and unique selling processes in this industry and our demonstrated ability to meet our customers' business needs have made Dendrite the world's largest supplier of sales force effectiveness solutions to the prescription-only pharmaceutical industry, based on the number of licensed users.

Our pharmaceutical customers include: Eli Lilly; Johnson & Johnson; Kissei; Parke-Davis; Pfizer; SmithKline Beecham; and Takeda. Our customers in the consumer packaged goods market or CPG include: Bacardi-Martini; Gillette; and Rayovac.

Our current offering of sales force software products include: ForcePharma; SalesPlus; ForceOne; ForceAnalyzerRx; and Force MultiplierRx, each of which is described below under "Products and Services".

We also offer a broad range of support services that enable our customers to maximize the effectiveness of their Dendrite software products. These services include software implementation, technical and hardware support and sales force support. We typically provide these services under multi-year agreements.

#### PRODUCTS AND SERVICES

We develop and market a comprehensive range of sales force solutions consisting of software products and a wide range of support services. These solutions enable our customers to, among other things, to:

- realign sales territories;
- reallocate sales personnel on a customer or formulary basis; and
- redeploy sales and marketing resources more rapidly and more precisely.

Our sales force software products integrate and process large volumes of time-sensitive sales-related data for use in developing sales strategies. Our current sales force software product offerings allow

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customers to select many different combinations of features for different types of sales forces. Our current product offerings typically do not require customization in order to be implemented. In some circumstances, they are configured to address data, market and other specific customer requirements.

#### PHARMACEUTICAL SALES FORCE SOFTWARE PRODUCTS

We currently offer our pharmaceutical customers three primary software products: ForcePharma; SalesPlus; and J Force. We also offer our pharmaceutical customers an additional Windows CE(TM)-based software product, known as ForceCompanion.

FORCEPHARMA. We recently introduced ForcePharma, our new sales force

software product targeted at large multinational pharmaceutical customers, and, to date, have entered into licensing agreements with four customers. ForcePharma can be configured to support sales representatives and managers at all levels within a sales organization.

The table below describes the principal functions available for the ForcePharma product:

FORCEPHARMA CLIENT FUNCTIONALITY

CUSTOMER MANAGEMENT	Provides an accurate, up-to-date picture of customer and business opportunities. Allows quick and accurate completion of call reports.
CUSTOMER TARGETING	Allows end user to generate lists using specific database queries easily adapted to the user's needs. Allows sales activity to be concentrated on the most important customers.
PLANNER	Allows end user to plan and record activity and optimize scheduling and coordination of promotional activities.
SAMPLE MANAGEMENT	Allows end user to track inventory and perform adjustments, including transfers and returns.
MEETINGS	Allows planning, recording and management of group selling events, such as dinner meetings, speaker programs, symposia, etc.
SYNCHRONIZATION MANAGER	Allows end user to synchronize multiple databases in one communications session.

FORCEPHARMA SYSTEM CONFIGURATOR AND BACK OFFICE ADMINISTRATOR

SYSTEM CONFIGURATOR	Creates interfaces, permits modifications for existing end users and allows the end user to select the language to be used.
BACK OFFICE ADMINISTRATOR	Permits definition of business rules and allows administration of sales force composition and pre-configured drop down boxes.

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The ForcePharma product can be configured to address a customer's specific business requirements, including the creation of new data structures. New functions, which integrate fully with the existing configuration, can be added over time, therefore allowing the customer to acquire a system that is capable of evolving as the customer's business requirements change. A typical major pharmaceutical customer will select a configuration depending on the structure of the customer's sales force, the geographic region involved and the type of pharmaceutical sales data available. Each function is offered with specific continuing support services.

The ForcePharma software product offers an enhanced user-friendly graphical interface through a Microsoft(R) Windows environment and uses object-oriented programming technology to enhance the modular properties of this product. This product also contains features capable of analyzing both territory-based and prescriber-level prescription sales data. This data permits priority targeting of physicians and others who influence the pharmaceutical prescription process.

The majority of our installed base consists of Series 6 and, to a lesser extent, Series 5 and Series 4 software products, the predecessor products to ForcePharma. ForcePharma offers greater functionality than these predecessor products. Customers licensed to use Series 6 and Series 5 products accounted for approximately 92% of the sales representatives licensed to use our pharmaceutical sales force software products as of December 31, 1997 and 91% as of December 31, 1998.

We are presently marketing to all of our customers a migration path that will enable them to upgrade to the ForcePharma product. There can be no assurance that any such migration will occur. The primary considerations for customers determining whether to upgrade include the enhanced ability of ForcePharma to address their evolving business needs and the significant cost of making the transition to a competitor's product.

Our Series 4 product is a DOS-based product. Customers licensed to use

Series 4 accounted for approximately 8% of the sales representatives licensed to use our pharmaceutical sales force software products as of December 31, 1997 and 6% as of December 31, 1998. We have in the past supported users of our Series 4 products. However, we now consider this product mature and have advised our customers that we will not support it in the future.

We price our pharmaceutical sales force software products based on the geographic area in which a customer uses our software product, the software configuration and the total number of users. We also charge additional one-time fees to install the software and annual fees for continuing services.

SALESPLUS. In July 1998, we acquired Associated Business Computing N.V. and an affiliated company (collectively, "ABC"). ABC is a Belgian-based developer and provider of a software product known as SalesPlus, which is marketed to mid-range European pharmaceutical companies. We are currently marketing this software product for license under the SalesPlus name to our pharmaceutical customers in Europe and, through a new strategic business unit, SalesPlus Americas, in the United States. Dendrite configures SalesPlus prior to sale, which saves our customers the time and costs associated with configuration. This product is offered to those prescription-only pharmaceutical customers whose business needs do not require all of the features of the ForcePharma product. Like ForcePharma, these products support all levels within a sales organization.

J FORCE. We are now also offering for license in Japan a new SFE product called J Force, which we developed specifically for the Japanese market. This product contains functionality similar to that of ForcePharma, but has graphical user interface and local market requirements that reflect the unique characteristics of the Japanese prescription-only pharmaceutical market.

FORCECOMPANION. We also offer ForceCompanion, a Windows CE(TM)-based palmtop solution for remote use by pharmaceutical company sales representatives. This software product furnishes a sales representative with physician profiles, an appointment diary and signature capture for pharmaceutical sample management.

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#### CPG INDUSTRY PRODUCTS

FORCEONE. In May 1996, we acquired SRCI, S.A. ("SRCI"), France's largest provider of custom-designed sales force software products for the consumer packaged goods or CPG market. SRCI's core product, NOMAD'S, was translated into English and we began to market the product in the United States and Canadian markets under the name ForceOne in the fourth quarter of 1996. ForceOne contains most of the same basic features as our ForcePharma product, as well as features specifically created for the CPG industry. ForceOne can be configured to support field sales representatives, their managers and key account managers. The structure of our license, implementation and ongoing service fees for our CPG customers is generally similar to that of our pharmaceutical customers.

#### ANALYTICAL TOOLS

We currently offer certain analytical software and reporting tools under the ForceMultiplieRx and ForceAnalyzeRx product names, which may be used either with our sales force software products or on a stand-alone basis. These software products allow users to analyze data, such as prescription trends, and produce reports based on the results of these analyses. These products also provide customers with timely information that they can use in developing sales strategies. The custom applications that we design with these products address a wide variety of client business needs, including sales, market research, clinical trials, new product launch analyses and sales reporting.

The back-end database for ForceMultiplieRx is populated with real time third party prescription data. This data may be integrated with both internal and external data sources to provide a customer with timely market information, including physician prescribing patterns and their responsiveness to customer sales and marketing efforts.

#### SERVICES

Our customers often enter into agreements covering software implementation, technical and hardware support and sales force support services. Virtually all customers sign a software maintenance agreement that covers, among other things, software defect resolution.

For the year ended December 31, 1998, service revenues represented approximately 89% of our total revenues. As a result of providing these ongoing services, we have developed long-term strategic relationships with our customers. For example, it is generally our experience that once we begin supplying SFE solutions to our larger customers, we continue to provide support services to them beyond the expiration of the initial service agreement. In

addition, as these relationships develop, our customers generally increase the amount of support services they purchase from us. These relationships have accounted for some of the increase in our service-related revenues.

The complexity and size of the sales data and market research databases being integrated and manipulated by our software products require highly specialized information systems skills, particularly as new sources of data must be integrated. The creation of a customer's database requires loading third party data onto a central server or servers and encoding that data with proprietary Dendrite data links. This encoding process allows the data to be integrated into a functional sales-related database used by Dendrite's sales force software products. We initially perform these services during installation and, if requested, may continue to manage these information systems over time. Many companies choose not to employ the information systems staff needed to manage these large, complex databases and consider the outsourcing of these tasks to us as both economically and operationally advantageous.

We offer the full range of support services to all of our customers. However, because customers of our SalesPlus and ForceOne products often require less functionality, we expect to sell fewer support services to these customers than to our ForcePharma customers.

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The following table outlines the principal services we offer:

#### IMPLEMENTATION SERVICES

PROJECT MANAGEMENT	Plan the configuration, if applicable, and implementation of a Dendrite sales force software product.
DATA MODELING	Create the customer's specific version of the Dendrite data model.
CONFIGURATION	Configure software, if applicable, to meet customer requirements for the software components of a Dendrite sales force software product.
DATABASE MODELING	Create the customer's integrated database, including: <ul style="list-style-type: none"><li>- loading and linking third party prescription sales data, market research and other materials;</li><li>- identifying geographic and/or functional (e.g., formulary) segments; and</li><li>- allocating third party data by territory or other functional segment.</li></ul>
REMOTE COMPUTER HARDWARE PREPARATION	Load data onto customer's remote computer hardware (e.g., laptop and notebook computers) for training, testing and use.
TRAINING	Instruct on use and capabilities of Dendrite sales force software products.

#### TECHNICAL AND HARDWARE SUPPORT SERVICES

PROJECT MANAGEMENT	Design, structure and manage technical support for Dendrite sales force software products.
SOFTWARE CUSTOMIZATION	Modify source code to meet customer's needs.
DATABASE MAINTENANCE	Continue to support the customer's database, including: <ul style="list-style-type: none"><li>- loading and linking new releases of third party data purchased by the customer; and</li><li>- identifying new functional segments for data analysis.</li></ul>
SOFTWARE CODE MAINTENANCE	Provide software defect resolution and issue performance updates, feature changes and, in certain circumstances, new versions of products.
SERVER SUPPORT	Operate and maintain server computers.

ASSET MANAGEMENT

Provide asset control and maintain remote computer hardware, including recapture of data on defective equipment and replacement of defective equipment.

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BUSINESS INTERRUPTION SERVICES

Develop business interruption plan for management of any unforeseen interference with Dendrite's provision of ongoing support services, including coordinating the retention of a disaster recovery provider for the customer's servers.

YEAR 2000 COMPLIANCE TESTING

Test customer's sales force automation production environment to determine whether it is Year 2000 compliant (i.e., accurately recognizes and processes dates beyond December 31, 1999). This testing covers not only the applicable Dendrite product, but also much of the related hardware, third party software and associated interfaces.

SALES FORCE SUPPORT SERVICES

PROJECT MANAGEMENT

Design, organize and manage support for customer sales forces.

RETRAINING

Provide ongoing training on use and capabilities of Dendrite sales force software products.

TERRITORY REALIGNMENT

Assist the customer in planning and executing realignments of sales territories or functional (e.g., formulary-based) segments to allow more effective resource allocation.

TELEPHONE SUPPORT SERVICES

Provide direct customer service telephone support for Dendrite sales force and certain third party software products, seven days a week and in many foreign languages.

DATA ANALYSIS

Provide pro-active prescription data analysis at a territory and physician level to a customer's sales representatives to improve sales and promotional campaigns.

When a customer licenses a Dendrite sales force software product, we typically establish an implementation services group for that customer, as well as a separate support service group composed of both customer support and technical support personnel who are primarily dedicated to servicing that customer. However, for customers with smaller sales forces or sales forces with specialized needs, such as non-home country language capability, the service group may have responsibility for more than one client. Our service groups are usually located at our facility in the country where a significant portion of the customer's sales force is located. This proximity to our customers allows the service group to provide assistance using a common language.

Typically, we provide services under a multi-year contract. In North America, we enter into service agreements directly with our customers. Outside North America, we enter into service agreements through our local wholly owned subsidiary or branch. Depending upon the size of the customer and the scope of services to be performed, a dedicated service group may be comprised of five to 100 persons.

SOFTWARE CONFIGURATION

Our pharmaceutical sales force software products are configured to allow information access and communication among geographically dispersed sales and marketing personnel and regional and home offices. The core of the configuration is a central database server, which stores the customer information and integrates and controls all data flow from external points. Most of the servers used by our customers are manufactured by IBM, Compaq, Hewlett-Packard or Sun Microsystems and run on UNIX(TM) or Windows NT(R) operating systems. Servers are purchased or leased

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by Dendrite's customers or leased for them by Dendrite. Some smaller customers lease space on our servers located in various offices worldwide.

Remote databases are stored on laptop and palmtop computers used by sales representatives in the field and updated regularly over telephone lines via modem. Regional sales managers using personal computers may access the server via wide area networks. Our customers are responsible for selecting computer equipment and for deciding when to upgrade or replace it.

Our pharmaceutical sales force software products permit a sales representative to send updated information to the central database server. Similarly, the sales representative can receive information concerning upcoming calls as well as additional sales efforts planned by other sales representatives within the same company. This server, in most cases located at one of our facilities, contains the customer's own database of sales-related information which is generally maintained and operated for the customer by us.

Our pharmaceutical sales force software products are designed to provide information to those involved in sales and sales management and also to all other levels within each sales organization including its senior management. For example, information directly related to sales, such as travel and expense reports, may be provided to the finance and personnel departments. Similarly, representatives in the field can provide information concerning a physician that can assist managed care sales personnel. These systems create the linkage which connects a customer's sales and management functions with other business departments.

Our CPG software products are generally configured in a manner similar to our pharmaceutical software products. However, CPG sales representatives are more likely to use handheld or palmtop computing devices than laptop and desktop personal computers.

## MARKETING

### CUSTOMERS

Our customers include major multinational pharmaceutical companies, including: Eli Lilly; Johnson & Johnson; Kissei; Parke-Davis; Pfizer; Smith-Kline Beecham; and Takeda. In addition, in the CPG market, our customers include: Bacardi-Martini; Gillette; and Rayovac.

Revenues from Pfizer and Eli Lilly and Rhone-Poulenc Rorer (considering all affiliates of each customer as part of that customer) in the aggregate accounted for 58% of our revenues for the year ended December 31, 1996. Revenues from Pfizer, Johnson & Johnson and Rhone-Poulenc Rorer in the aggregate accounted for 59% of our revenues for the year ended December 31, 1997. Revenues from Pfizer, Johnson & Johnson and Parke-Davis accounted for 56% of our revenues for the year ended December 31, 1998. The loss of all or a significant part of the business of any of these customers would have a material adverse affect on us. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- We depend on a few major customers for a significant portion of our revenues".

### SALES AND MARKETING

We actively market our sales force software products and services to prescription-only pharmaceutical and CPG companies in the United States, Western Europe and the Pacific Rim using regional and local sales and marketing personnel. Sales presentations are typically made to the customer's management information services department or sales department. The selection of a sales force software product often entails an extended decision-making process that typically takes nine to twelve months. This process may involve senior levels of management and, in some cases, the board of directors. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Our quarterly results of operations may fluctuate significantly and may not meet market expectations -- Our lengthy sales and implementation cycles make it difficult to predict quarterly revenues".

We work with a potential customer to identify its business requirements in light of its markets, sales organization and operating structure. We draw upon our broad product functionality and our experience in the applicable vertical market to provide a comprehensive, yet highly targeted SFE solution.

The positive response of our customers' sales representatives can influence the decisions of those customers to license additional functionality and/or to contract for expanded support services. Accordingly, we try to address the concerns of sales personnel during the training portion of our implementation services. We also promptly respond to customer communications and



evaluate them for indications of potential systemic problems or changing market trends.

We believe that our relationships with existing customers create additional sales and marketing opportunities. Further, we believe that our network of international offices allows us to serve our existing customers in new locations. Many of our prescription-only pharmaceutical customers also have over-the-counter operations that provide us with additional sales opportunities.

Finally, we have occasionally entered into several arrangements with business partners to market our products and/or services jointly. In addition, we occasionally resell computer hardware and third-party software.

#### COMPETITION

The current market for sales force software products and support services is highly competitive. Many companies offer sales force automation or SFA and SFE products and/or services in the prescription-only pharmaceutical and CPG industries. We believe that there are approximately ten other companies that sell sales force software products and specifically target the pharmaceutical industry, including:

- four competitors that are actively selling in more than one country; and
- three competitors that also offer sales force support services.

We believe that most of our competitors offer sales force software products and/or services that do not address the variety of customer needs that our solutions address. However, these competing solutions may cost less than our solutions.

SFA software products differ greatly in terms of functionality, flexibility and the type of hardware platform supported. Vendors of SFA software products also generally do not provide support services to the same extent as SFE vendors. We believe that our sales force software products and support services offer customers a more comprehensive solution than SFA software products. We believe that potential competitors must incur significant expense in order to develop an integrated, configurable solution for the problems presented by complex multinational selling environments. While we believe SFA software products are less compelling solutions, these software products, nonetheless, often cost less than SFE solutions. We also face competition from many vendors that market and sell SFA and sales force software products and services in the CPG market. In addition, we also compete with many companies that provide support services similar to our services.

Our sales force products and services compete with others principally on the basis of the following factors:

- product flexibility and configuration;
- platform configuration;
- name recognition;

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- global competence;
- service standards;
- breadth of customer base; and
- technical support and service.

We believe our SFE solutions compete favorably with respect to these factors, and that we are positioned to maintain our market leadership position through innovative new product and application developments and continued focus on support services. Some of our existing competitors, as well as a number of potential market entrants, have larger technical staffs, larger marketing and sales organizations and greater financial resources than we do.

In the prescription-only pharmaceutical vertical market, two of our competitors, IMS Health Strategic Technologies and TVF (Cegedim), own and control, either directly or through affiliated entities, proprietary data collection systems. It may be possible for a competitor to gain a competitive advantage in the pricing of its sales force software products with respect to customers who are interested in purchasing the data it or its affiliates collect. In addition, as new data sources emerge, companies providing such data may enter the SFE market and provide SFE solutions to our customers directly.

We believe that competition will increase as new competitors enter the

market to supply sales force software products and/or services and as existing competitors expand their product lines or consolidate. We also expect that we may encounter additional competition in the future from firms offering outsourcing of information technology services and from vendors of software products providing specialized applications not offered by us, including enterprise resource planning vendors and data base vendors. We also face potential competition from our customers and potential customers who may elect to design and install or to operate their own sales force management systems. For a discussion of the competitive risks we face in our business, see Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Increased competition may result in price reductions and decreased demand for our products and services".

#### RESEARCH AND DEVELOPMENT

We continue to take advantage of new technologies in developing new products and services. We charged to expense approximately \$6.8, \$2.7 and \$3.7 million of research and development in the years ended December 31, 1996, 1997 and 1998.

We have capitalized certain costs related to the development of new software products and the enhancement of existing software products consistent with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Capitalized software development costs net of accumulated amortization were \$2,408,000 at December 31, 1997 and \$3,503,000 at December 31, 1998.

#### PROPRIETARY RIGHTS

We rely on a combination of methods to protect our proprietary intellectual technology. These include:

- trade secret, copyright and trademark laws;
- license agreements with customers containing confidentiality provisions;
- confidentiality agreements with consultants, vendors and suppliers; and

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- non-disclosure agreements with each of our executive officers and technical employees.

Existing United States copyright laws provide only limited protection and even less protection may be available under foreign laws. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Our business depends on proprietary technology that we may not be able to protect completely".

#### EMPLOYEES

As of December 31, 1998, we employed 771 employees: 507 in the United States; 210 in Europe; 46 in the Pacific Rim; and 8 in Brazil.

We believe that relations with our employees are good. Our employees generally are not part of any collective bargaining unit except for our employees in France who are subject to a national collective bargaining agreement. We believe that our future growth and success will depend upon our ability to attract and retain skilled and motivated personnel, which is becoming progressively more difficult for many technology and services companies in many countries. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Our success depends on retaining our key senior management team and on attracting and retaining qualified personnel."

#### ADDITIONAL INFORMATION

For additional information regarding the Company's business, see Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### ITEM 2. PROPERTIES.

We lease a 101,500 square foot building, which serves as our corporate headquarters in Morristown, New Jersey; a 26,280 square foot building in Basking Ridge, New Jersey, which houses customer support personnel; and a 5,000 square foot warehouse in Somerset, New Jersey. We also lease a total of 47,800 square feet in twelve locations in Australia, Belgium, Brazil, France, Germany, Italy, Japan, New Zealand, Spain and the United Kingdom for local management, sales

offices and customer support operations. We believe that our existing U.S. corporate facilities will become insufficient for our needs in 1999, but that adequate space will be available as needed.

Servers located at our facilities are commonly maintained in a secured area and are often subject to regular audit and inspection by our customers. We maintain database servers located at our facilities for substantially all of our U.S. customers and for a substantial majority of our international customers. For these customers, we offer a business interruption service which is intended to protect these customers' businesses in the event of any unforeseen interruption, interference or disruption of the Company's provision of customer support services. As part of this offering, we will assist a customer in developing a business interruption plan, which will include the coordination of the customer's retention of a disaster recovery provider.

ITEM 3. LEGAL PROCEEDINGS.

We are occasionally involved in litigation relating to personnel and other claims arising in the ordinary course of business. We are not currently engaged in any legal proceedings that are expected, individually or in the aggregate, to have a materially adverse effect on our business.

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

Not applicable.

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PART II

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

Our common stock, no par value, is quoted on the Nasdaq National Market under the symbol "DRTE". As of March 23, 1999, there were approximately 95 holders of record of our common stock.

The following table sets forth for the periods indicated the high and low sale prices for our common stock as reported by the Nasdaq National Market System.

<TABLE>  
<CAPTION>

Period	High	Low
-----	-----	-----
<S>	<C>	<C>
Quarter Ended March 31, 1997.....	\$ 5.69	\$ 3.38
Quarter Ended June 30, 1997.....	8.63	4.06
Quarter Ended September 30, 1997.....	10.75	7.31
Quarter Ended December 31, 1997.....	11.00	7.81
Quarter Ended March 31, 1998.....	15.38	9.44
Quarter Ended June 30, 1998.....	19.00	12.78
Quarter Ended September 30, 1998.....	27.88	15.50
Quarter Ended December 31, 1998.....	29.50	16.25

</TABLE>

We have never paid any cash dividends on our capital stock and we do not intend to pay any cash dividends on our common stock in the foreseeable future. Our line of credit agreement with The Chase Manhattan Bank, N.A. requires us to maintain a minimum net worth measured quarterly which is equal to our net worth as of December 31, 1997 plus 50% of our net income earned after January 1, 1998 and plus 75% of the net proceeds to us of any stock offerings. This covenant effectively limits the amount of cash dividends we may pay. As of December 31, 1998, we had approximately \$43,806,000 available for the payment of dividends under this covenant. See Note 4 of "Notes to Consolidated Financial Statements" for a discussion of our line of credit agreement.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

SELECTED FINANCIAL DATA

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,				
	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----

	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues:					
License fees.....	\$ 6,917	\$ 6,042	\$ 8,774	\$ 7,707	\$ 12,827
Services.....	32,509	48,080	57,472	70,739	99,691
	-----	-----	-----	-----	-----
	39,426	54,122	66,246	78,446	112,518
Costs of revenues:					
Cost of license fees.....	1,450	712	832	1,758	2,314
Cost of services.....	15,652	22,714	31,544	36,894	47,558
	-----	-----	-----	-----	-----
	17,102	23,426	32,376	38,652	49,872
	-----	-----	-----	-----	-----
Gross margin.....	22,324	30,696	33,870	39,794	62,646
Operating expenses:					
Selling, general and administrative.....	16,392	21,252	26,440	29,905	39,853
Research and development.....	1,703	2,274	6,834	2,676	3,687
Write-off of in-process research and development.....	--	--	2,640	--	1,230
	-----	-----	-----	-----	-----
	18,095	23,526	35,914	32,581	44,770
	-----	-----	-----	-----	-----
Operating income (loss).....	4,229	7,170	(2,044)	7,213	17,876
Interest income.....	37	544	1,167	529	1,090
Other expense.....	(361)	(33)	(391)	(201)	(317)
	-----	-----	-----	-----	-----
Income (loss) before income taxes.....	3,905	7,681	(1,268)	7,541	18,649
Income taxes.....	1,578	2,987	644	2,931	7,382
	-----	-----	-----	-----	-----
Net income (loss).....	\$ 2,327	\$ 4,694	\$ (1,912)	\$ 4,610	\$ 11,267
	=====	=====	=====	=====	=====
Net income (loss) per share:					
Basic.....	\$ 0.34	\$ 0.33	\$ (0.09)	\$ 0.21	\$ 0.50
	=====	=====	=====	=====	=====
Diluted.....	\$ 0.12	\$ 0.23	\$ (0.09)	\$ 0.20	\$ 0.46
	=====	=====	=====	=====	=====
Shares used in computing net income (loss) per share:					
Basic.....	6,810	14,202	22,112	22,262	22,580
	=====	=====	=====	=====	=====
Diluted.....	18,666	20,762	22,112	23,036	24,623
	=====	=====	=====	=====	=====

</TABLE>

<TABLE>  
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	DECEMBER 31,				
	1994	1995	1996	1997	1998
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Working capital.....	\$ 5,008	\$ 28,655	\$ 30,432	\$ 33,981	\$ 47,963
Total assets.....	20,480	45,267	49,215	53,019	74,815
Capital lease obligations, less current portion	33	--	--	--	355
Redeemable Series A convertible preferred stock	6,976	--	--	--	--
Stockholders' equity .....	1,695	32,310	35,176	38,173	56,670

</TABLE>

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

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Form 10-K contains forward-looking statements that are subject to risks and uncertainties and that could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed herein. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's

We succeeded in 1991 to a business co-founded in 1986 by John E. Bailey, the Company's current President and Chief Executive Officer. The business was established to provide SFE solutions that would enable companies to manage, coordinate and control the activities of large sales forces in complex selling environments, primarily in the prescription-only pharmaceutical industry. Today, our solutions combine software products with a wide range of specialized support services. These services include software implementation, technical and hardware support and sales force support. We develop, implement and service sales force software products in the United States, Canada, Western Europe, Japan, Australia, New Zealand and Brazil through our own sales, support and technical personnel located in 13 offices worldwide.

We generate revenues from two sources: fees from support services and license fees. Service revenues, which account for a substantial majority of our revenues, consist of fees from a wide variety of contracted services which we make available to our customers, generally under multi-year contracts. We generate implementation fees from services provided to configure and implement the sales force software products for our customers. We receive technical and hardware support fees for services related to, among other things, the operation of our customers' server computers, maintenance of our customers' databases, asset control and maintenance for our customers' remote hardware and ongoing technical support. Technical and hardware support fees also include fees for software maintenance services such as software defect resolution, performance enhancements and, in some cases, product upgrades. We charge fees for these maintenance services based on a percentage of applicable license fees, plus any customization fees. We receive sales force support fees for organizing and managing support of our customers' sales force, including training, telephone support and data analysis services. Ongoing support fees are generally negotiated at the commencement of a contract. However, it is our experience that our larger customers increase the amount of services they purchase from us over time. Fees for these additional services are typically based on the labor and materials used to provide the applicable service.

We charge our customers license fees to use our proprietary computer software. Customers generally pay one-time perpetual license fees based upon the number of users, the territory covered and the number of modules, or features, in the particular software licensed by the customer.

Historically, we have generally recognized license fees as revenue using the percentage of completion method over a period of time that begins with execution of the license agreement and ends with the completion of initial customization and installation, if any. However, we believe that with some of our newer sales force software products, such as ForcePharma and SalesPlus, our customers will not require customization and therefore we may be able to recognize license fees from these products upon delivery.

We recognize additional license fees when customers agree to license additional functions or enhancements, acquire an upgraded version of Dendrite's software and/or when the maximum permitted number of users or initial geographic coverage is exceeded. All license fees, domestic and export, are included under the heading "License Fees -- United States" in Note 10 of "Notes to Consolidated Financial Statements".

The United States, the United Kingdom and France are our main markets. We generated approximately 52% of our total revenues outside the United States during the year ended December 31, 1996; approximately 42% during the year ended December 31, 1997; and approximately 27% during the year ended December 31, 1998. This decrease in the percentage of revenues generated outside the United States during 1998 was principally due to very strong revenue growth in our pharmaceutical and CPG businesses in the United States.

We bill services provided by our foreign branches and subsidiaries in local currency. License fees for our products are generally billed in U.S. dollars regardless of where they originate. Foreign license fees are shown as United States

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export revenues in Note 10 of "Notes to Consolidated Financial Statements". Operating results generated in local currencies are translated into U.S. dollars at the average exchange rate in effect for the reporting period.

Our operating profits by geographic segments are shown in Note 10 of "Notes to Consolidated Financial Statements". Our geographic operating profits are affected primarily by our use of technical and support personnel to support service revenues, costs associated with opening new or expanding existing facilities and our ability to increase service revenues faster than the growth in selling, general and administrative expenses.

The following table sets forth our results of operations expressed as a percentage of total revenues for the periods indicated:

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues:			
License fees.....	13%	10%	11%
Services.....	87	90	89
	----	----	----
	100	100	100
Costs of Revenues:			
Cost of license fees.....	1	2	2
Cost of services.....	48	47	42
	----	----	----
	49	49	44
	----	----	----
Gross Margin.....	51	51	56
Operating Expenses:			
Selling, general and administrative.....	40	38	36
Research and development.....	10	4	3
Write-off in-process research and development..	4	--	1
	----	----	----
	54	42	40
	----	----	----
Operating income (loss).....	(3)	9	16
Other income.....	1	1	1
	----	----	----
Income (loss) before income taxes.....	(2)	10	17
Income taxes.....	1	4	7
	----	----	----
Net Income (loss).....	(3) %	6%	10%
	====	====	====

</TABLE>

Certain reclassifications have been made to prior year amounts to conform with current year presentations. During the second quarter of 1998, we determined that costs associated with certain activities that were previously classified as research and development expense should be classified as cost of services as these expenditures relate to client specific activities. For consistency of presentation, all prior periods have been reclassified.

YEARS ENDED DECEMBER 31, 1997 AND 1998

REVENUES. Total revenues increased \$34,072,000 or 43% from \$78,446,000 in 1997 to \$112,518,000 in 1998.

License fee revenues increased 66% from \$7,707,000 in 1997 to \$12,827,000 in 1998. This increase was primarily attributable to the recognition of revenue related to license fees from several significant contracts in the pharmaceutical division, sales to new customers in our consumer business division and increased sales of third party software.

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Service revenues increased 41% from \$70,739,000 in 1997 to \$99,691,000 in 1998. This increase was primarily the result of an increase in our installed base of sales force software products at both new and existing customers, the commencement of major product rollouts, as well as the provision of additional services to our existing customers.

COST OF REVENUES. Cost of revenues increased \$11,220,000 or 29% from 38,652,000 in 1997 to \$49,872,000 in 1998.

Cost of license fees increased 32% from \$1,758,000 in 1997 to \$2,314,000 in 1998. Cost of license fees for 1998 represents the amortization of capitalized software development costs of \$1,392,000 and third party vendor license fees of \$922,000. Cost of license fees for 1997 represents the amortization of capitalized software development costs of \$1,100,000 and third party vendor license fees of \$658,000. The increase in the amortization of capitalized software development costs in 1998 was due to the increase in gross capitalized software development costs in 1998 as compared to 1997. The increase in third party vendor license fees in 1998 was attributable to the increase in third party software sales in 1998.

Cost of services increased 29% from \$36,894,000 in 1997 to \$47,558,000 in 1998. This increase was primarily due to an increase in staff required to support greater client activity including the use of higher cost consultants and contractors. As a percentage of service revenues, however, cost of services decreased from 52% of service revenues in 1997 to 48% in 1998. This decrease was primarily the result of increased operational efficiencies in 1998 as well as unusually high costs in the first quarter of 1997 associated with the carry-over effect of expenses initially incurred in the fourth quarter of 1996 as discussed under " -- Years Ended December 31, 1996 and 1997 -- Cost of Revenues".

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES. SG&A expenses increased 33% from \$29,905,000 in 1997 to \$39,853,000 in 1998. This increase was primarily attributable to increased staff required for sales and support operations. As a percentage of revenue, SG&A expenses decreased from 38% in 1997 to 36% in 1998, due to leveraging the fixed cost elements in general and administrative expenses over a higher revenue base.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses increased 38% from \$2,676,000 in 1997 to \$3,687,000 in 1998. As a percentage of revenues, research and development expenses remained relatively constant. The increase in research and development expenses during the most recent period was primarily attributable to increased spending on development of our CPG products, the continued development of ForceMultiplieRx and the development of our next generation pharmaceutical sales force software product, ForcePharma. With respect to future research and development expenses, subject to market conditions, we currently anticipate that such expenses will be approximately 4% to 6% of revenues. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Our quarterly results of operations may fluctuate significantly and may not meet market expectations" and -- "Factors That May Affect Future Operating Results --We may be unable to successfully introduce new products or respond to technological change" in this Item 7.

WRITE-OFF OF IN-PROCESS RESEARCH AND DEVELOPMENT COSTS. We incurred a one-time charge of \$1,230,000 to record the write-off of in-process research and development costs resulting from the acquisition of ABC. This amount represents the estimated fair values, based on an independent appraisal, related to in-process research and development projects which had not yet reached technological feasibility.

PROVISION FOR INCOME TAXES. The effective tax rate, excluding the impact of the write-off of in-process research and development which is not tax deductible, was reduced to 37% during 1998 as opposed to 39% during 1997. This decrease was due primarily to the implementation of tax minimization strategies throughout the world.

ACQUISITION OF ABC. On July 24, 1998, we acquired 100% of the capital stock of ABC for a combination of cash and stock equivalent to approximately \$4,013,000 and transaction costs of \$150,000. The acquisition has been accounted for using the purchase method of accounting, whereby the purchase price is allocated to the assets and liabilities of ABC based on their respective fair market values at the acquisition date. The excess of the purchase price

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over the fair value of the net assets acquired was assigned to identifiable intangibles. We assigned \$1,230,000 to in-process research and development and such amount was written off in the accompanying statement of operations. We also recorded \$850,000 as capitalized software and \$2,226,000 as goodwill. ABC's results of operations have been included in our Consolidated Financial Statements from the date of acquisition.

YEARS ENDED DECEMBER 31, 1996 AND 1997

REVENUES. Total revenues increased \$12,200,000 or 18% from \$66,246,000 in 1996 to \$78,446,000 in 1997.

License fee revenues decreased 12% from \$8,774,000 in 1996 to \$7,707,000 in 1997. This decrease was primarily attributable to the recognition of revenue related to license fees for a major European client during 1996, partially offset by the inclusion of \$796,000 in revenue associated with the resale of third party software during 1997 versus \$112,000 in revenue associated with the resale of third party software during 1996.

Service revenues increased 23% from \$57,472,000 in 1996 to \$70,739,000 in 1997. This increase was primarily the result of an increase in our installed base of sales force software products with new and existing customers and the provision of additional services to our existing customers, largely in the U.S., where the service revenue increase was \$11,585,000 or 39%.

COST OF REVENUES. Cost of revenues increased 19% from \$32,376,000 in 1996 to \$38,652,000 in 1997.

Cost of license fees increased 111% from \$832,000 in 1996 to \$1,758,000 in 1997. In 1997, the cost of license fees represents the amortization of capitalized costs of \$1,100,000 and third party vendor license fees of \$658,000. In 1996, the cost of license fees represents the amortization of capitalized costs of \$739,000 and third party vendor license fees of \$93,000.

Cost of services increased 17% from \$31,544,000 in 1996 to \$36,894,000 in 1997, primarily due to an increase in the number of service representatives and technical staff from the prior year. The increase was necessary to support the increased client activity during the year. As a percentage of service revenues, cost of services decreased from 55% of service revenues in 1996 to 52% of service revenues in 1997. This decrease was due to certain events which occurred in 1996, including:

- multiple customer delayed implementations for which we had hired personnel for training, customer service and technical support;
- costs associated with retaining a significant number of independent contractors to complete client deliverables;
- delayed customer license purchase and upgrade decisions; and
- increased research and development spending.

As a result of these factors, we incurred a net loss of \$3.3 million in the fourth quarter of 1996.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) EXPENSES. SG&A expenses increased 13% from \$26,440,000 in 1996 to \$29,905,000 in 1997. As a percentage of revenue, SG&A expenses decreased from 40% in 1996 to 38% in 1997. This decrease was attributable to the fixed nature of certain SG&A costs, such as rent and corporate salaries, as revenues increase.

RESEARCH AND DEVELOPMENT. Research and development expenses decreased 61% from \$6,834,000 in 1996 to \$2,676,000 in 1997. As a percentage of revenues, research and development expenses decreased from 10% for the

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year ended December 31, 1996 to 4% for the year ended December 31, 1997. The decrease in research and development expenses in 1997 was consistent with our intentions, as peak development efforts associated with several new software products decreased as these software products neared completion.

PROVISION FOR INCOME TAXES. The effective tax rate was reduced to 39% for the year ended December 31, 1997 as compared to 47% for the year ended December 31, 1996, excluding the impact of the write-off of in-process research and development which is not tax deductible. The reduction was due to the higher base of net income relative to the amount of non-deductible expenses in the year ended December 31, 1997 as compared to the year ended December 31, 1996.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain unaudited consolidated statement of operations data expressed in U.S. dollars for our eight most recently ended fiscal quarters. This data has been derived from our unaudited consolidated financial statements and, in the opinion of management, includes all adjustments consisting only of normal recurring adjustments necessary for a fair presentation in accordance with generally accepted accounting principles. Our results of operations for a particular quarter are not necessarily indicative of our results of operations for any future period. Our quarterly results have varied considerably in the past and are likely to vary from quarter to quarter in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- Our quarterly results of operations may fluctuate significantly and may not meet market expectations" in this Item 7.

<TABLE>  
<CAPTION>

	QUARTERS ENDED							
	MARCH 31 1997	JUNE 30 1997	SEPT. 30 1997	DEC. 31 1997	MARCH 31 1998	JUNE 30 1998	SEPT. 30 1998	DEC. 31 1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:								
Revenues:								
License fees .....	\$ 1,094	\$ 1,725	\$ 2,370	\$ 2,518	\$ 2,971	\$ 4,299	\$ 1,116	\$ 4,442
Services .....	15,548	16,342	17,998	20,851	19,656	24,028	29,352	26,653



Costs of Revenues:	16,642	18,067	20,368	23,369	22,627	28,327	30,468	31,095
Cost of license fees .....	273	392	729	365	361	1,024	379	550
Cost of services .....	9,795	8,333	8,795	9,971	9,894	12,402	13,645	11,616
	10,068	8,725	9,524	10,336	10,255	13,426	14,024	12,166
Gross margin .....	6,574	9,342	10,844	13,033	12,372	14,901	16,444	18,929
Operating Expenses:								
Selling, general, and administrative .....	6,373	7,636	7,678	8,217	8,459	9,962	10,280	11,153
Research and development ..	683	653	606	734	899	870	847	1,069
Write-off of in-process research and development	--	--	--	--	--	--	1,230	--
	7,056	8,289	8,284	8,951	9,358	10,832	12,357	12,222
Operating income (loss) .	(482)	1,053	2,560	4,082	3,014	4,069	4,087	6,707
Interest income .....	128	131	100	169	196	214	280	399
Other income (expense) .....	(57)	(95)	(21)	(27)	(321)	(45)	117	(68)
Income (loss) before income taxes (benefit) ..	(411)	1,089	2,639	4,224	2,889	4,238	4,484	7,038
Income taxes (benefit) .....	(145)	442	1,047	1,587	1,127	1,581	2,043	2,631
Net income (loss) .....	\$ (266)	\$ 647	\$ 1,592	\$ 2,637	\$ 1,762	\$ 2,657	\$ 2,441	\$ 4,407
Net income (loss) per share:								
Basic .....	\$ (0.01)	\$ 0.03	\$ 0.07	\$ 0.12	\$ 0.08	\$ 0.12	\$ 0.11	\$ 0.19
Diluted .....	\$ (0.01)	\$ 0.03	\$ 0.07	\$ 0.11	\$ 0.07	\$ 0.11	\$ 0.10	\$ 0.18
Shares used in computing net income (loss) per share:								
Basic .....	22,450	22,142	22,201	22,252	22,324	22,418	22,705	22,883
Diluted .....	22,450	22,736	23,226	23,316	23,900	24,302	24,818	25,107

</TABLE>

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#### LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through cash generated by operations. Net cash provided by operating activities was \$24,206,000 for the year ended December 31, 1998, compared to cash provided by operating activities of \$3,318,000 for the year ended December 31, 1997. This increase was due primarily to higher net income, as well as more efficient accounts receivable and liability management during the year ended December 31, 1998, compared to the year ended December 31, 1997.

Cash used in investing activities was \$12,565,000 in the year ended December 31, 1998, compared to cash obtained from investing activities of \$3,301,000 in the year ended December 31, 1997. This increase was due primarily to the increase in short-term investments as well as the purchase of ABC in the year ended December 31, 1998.

On January 16, 1997, Dendrite's Board of Directors (the "Board of Directors" or the "Board") approved a stock buy-back program initially limited to \$3,000,000, which, subject to further Board review and approval, could be increased to a maximum of \$10,000,000, but not greater than 9% of Dendrite's outstanding shares of common stock. During the twelve month period ending December 31, 1997, Dendrite repurchased 401,000 shares of common stock for a value of \$1,927,000. Dendrite did not repurchase any shares of common stock during the period ending December 31, 1998.

We obtained \$3,610,000 of cash from financing activities in the year ended December 31, 1998, compared to the use of \$1,331,000 in cash from financing activities in the year ended December 31, 1997. The change in our cash provided from financing activities was due to an increase in the issuance of common stock, primarily from the exercise of employee stock options during the year ended December 31, 1998 and open-market purchases of our common stock during the year ended December 31, 1997.

We recently entered into a \$15,000,000 revolving line of credit agreement with The Chase Manhattan Bank, N.A. The agreement is available to finance working capital needs and possible future acquisitions. The \$15,000,000 line of credit agreement requires us to maintain a minimum consolidated net worth, among other covenants, measured quarterly, which is equal to our net worth as of December 31, 1997 plus 50% of our net income earned after January 1, 1998 and plus 75% of the net proceeds to us of any stock offering. This covenant

effectively limits the amount of cash dividends we may pay. At December 31, 1998, there were no borrowings outstanding under the agreement.

Our working capital was approximately \$33,981,000 at December 31, 1997 and \$47,963,000 at December 31, 1998. We have no significant capital spending or purchasing commitments other than normal purchase commitments and commitments under facility and capital leases.

On January 28, 1999, Dendrite filed a Registration Statement on Form S-3 (the "Registration Statement") with the Securities and Exchange Commission to register a proposed offering of 2,750,000 shares of common stock by the Company and an additional 500,000 shares of common stock by certain selling stockholders named in the Registration Statement. Dendrite will not receive any of the proceeds from the sale of the shares of common stock being sold by the selling stockholders.

We regularly evaluate opportunities to acquire products or businesses complementary to our operations. Such acquisition opportunities, if they arise, and are successfully completed, may involve the use of cash or equity instruments. We currently have no agreements to make any acquisitions.

#### YEAR 2000 READINESS DISCLOSURE

The efficient operation of our business is dependent in part on our internal computer software and operating systems (collectively, our "Internal Programs and Systems"). Since 1997, as part of our Year 2000 compliance plan, we have been evaluating our Internal Programs and Systems to identify potential Year 2000 compliance problems. We have tested our Internal Programs and Systems to verify Year 2000 compliance. As a result of the testing, we have determined

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that some of our Internal Programs and Systems are not Year 2000 compliant. We have begun and will continue to modify or replace some of our Internal Programs and Systems to make them Year 2000 compliant. We are also communicating with our suppliers and others to coordinate Year 2000 conversion and are requesting assurances from all software vendors from which we may purchase or license software that such software will correctly process all date information at all times.

To date, we have spent approximately \$178,000 to evaluate, test and remediate, if necessary, our Internal Programs and Systems for Year 2000 compliance problems and we expect to spend up to an additional \$50,000 through the end of second quarter of 1999. We will fund these costs with cash from our operations. To date, we have not spent any material amount on evaluating the Year 2000 compliance status of our software products and software products licensed to its customers. Although we do not anticipate any future material expenditures, our customers may require us to incur additional expenses associated with remediating their software products. We expect that the expenses and capital expenditures associated with achieving Year 2000 compliance will not have a material adverse effect on our business, results of operations or financial condition.

We believe that we will be able to achieve Year 2000 compliance through a combination of modification of some existing Internal Programs and Systems and the replacement of other Internal Programs and Systems with new programs and systems that are already Year 2000 compliant. We expect to have our Year 2000 compliance program substantially completed by the end of the second quarter of 1999. However, we cannot assure you that these efforts will be successful or completed in a timely manner.

We believe most of our sales force software products that we currently offer to customers are Year 2000 compliant. We define "Year 2000 compliant" to mean that the applicable Dendrite product is capable of recognizing and processing date data beyond the Year 2000 as belonging to the correct century, so long as all products (for example, hardware, firmware, and software including interfacing programs, operating systems, and database engines) used with the software are Year 2000 compliant and properly exchange date data with our products.

Some of our older products will not, and some may not, accurately process dates beyond December 31, 1999. To the extent any of these products are still in use in 1999, we will continue to attempt to migrate our customers to products which are Year 2000 compliant. We cannot assure you that this will occur. A failure to migrate any such customer to a product which is Year 2000 compliant could adversely affect our business, operating results or financial condition. We may also experience increased expenses which we cannot recoup from current customers in addressing their migration to software that is Year 2000 compliant. We have strongly encouraged each customer to have its product tested by us for Year 2000 compliance.

Because of our relatively advanced state of readiness, we have not yet formulated a reasonably likely worst case scenario. During the second quarter of

1999, as we assess our state of readiness for January 1, 2000, we expect to formulate this scenario and to prepare a contingency plan, if warranted. For a discussion of the risks associated with the Year 2000, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors that May Affect Future Operating Results -- We are exposed to risks associated with the Year 2000 -- Year 2000 Readiness Disclosure" in this Item 7.

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#### FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

##### OUR BUSINESS IS HEAVILY DEPENDENT ON THE PHARMACEUTICAL INDUSTRY

Most of our sales force software products and services, also referred to as sales force effectiveness or SFE solutions, are currently used in connection with the marketing and sale of prescription-only drugs. This market is undergoing a number of significant changes. These include:

- consolidations and mergers which may reduce the number of our existing and potential customers;
- reclassification of formerly prescription-only drugs to permit their over-the-counter sale;
- competitive pressures on our pharmaceutical customers resulting from the continuing shift to delivery of healthcare through managed care organizations; and
- changes in law, such as government mandated price reductions for prescription-only drugs, that affect the healthcare systems in the countries where our customers and potential customers are located.

We cannot assure you that we can respond effectively to any or all of these and other changes in the marketplace. Our failure to do so could have a material adverse effect on our business, operating results or financial condition. See "Business -- Industry Overview" for a discussion of the pharmaceutical industry sales environment.

##### OUR QUARTERLY RESULTS OF OPERATIONS MAY FLUCTUATE SIGNIFICANTLY AND MAY NOT MEET MARKET EXPECTATIONS

Our results of operations may vary from quarter to quarter due to lengthy sales and implementation cycles for our products, our fixed expenses in relation to our fluctuating revenues and variations in our customers' budget cycles, each of which is discussed below. As a result, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. It is possible that in some future period our results of operations may be below the expectations of the public market analysts and investors. If this happens, the price of our common stock may decline. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for detailed information on our quarterly operating results.

##### OUR LENGTHY SALES AND IMPLEMENTATION CYCLES MAKE IT DIFFICULT TO PREDICT OUR QUARTERLY REVENUES

The selection of a sales force software product often entails an extended decision-making process because of the strategic implications and substantial costs associated with a customer's license of the software. Given the importance of the decision, senior levels of management often are involved and, in some instances, the board of directors may be involved in this process. As a result, the decision-making process typically takes nine to twelve months, although in some cases it may take even longer. Accordingly, we cannot control or predict the timing of our execution of contracts with customers.

In addition, an implementation process of three to six months is customary before the software is rolled out to a customer's sales force. However, if a customer were to delay or extend its implementation process, our quarterly revenues may decline below expected levels and could adversely affect our results of operations.

##### OUR FIXED COSTS MAY LEAD TO FLUCTUATIONS IN OUR QUARTERLY OPERATING RESULTS IF REVENUES FALL BELOW EXPECTATIONS

We establish our expenditure levels for product development, sales and marketing and some of our other operating expenses based in large part on our expected future revenues and anticipated competitive conditions. In particular, we frequently add staff in advance of new business to permit adequate time for training. If the new business is subsequently delayed or canceled, we will have incurred expenses without the associated revenue. In addition,

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we may increase sales and marketing expenses if competitive pressures become greater than we currently anticipate. Since only a small portion of our expenses varies directly with our actual revenues, our operating results and profitability are likely to be adversely and disproportionately affected if our revenues fall below expectations.

#### OUR BUSINESS IS AFFECTED BY VARIATIONS IN OUR CUSTOMERS' BUDGET CYCLES

We have historically realized a greater percentage of our license fees and service revenues in the second half of the year than in the first half because, among other things, our customers typically spend more of their annual budget authorization for SFE solutions in the second half of the year. However, the relationship between the amounts spent in the first and second halves of a year may vary from year to year and from customer to customer. In addition, changes in our customers' budget authorizations may reduce the amount of revenues we receive from the license of additional software or the provision of additional services. As a result, our operating results could be adversely affected.

#### WE DEPEND ON A FEW MAJOR CUSTOMERS FOR A SIGNIFICANT PORTION OF OUR REVENUES

We derive a significant portion of our revenues from a limited number of customers (considering all affiliates of each customer as part of that customer). Approximately 56% of our total revenues in 1998 came from Pfizer, Johnson & Johnson and Parke-Davis. Approximately 59% of our total revenues in 1997 came from Pfizer, Johnson & Johnson and Rhone-Poulenc Rorer. Approximately 58% of our total revenues in 1996 came from Pfizer, Eli Lilly and Rhone-Poulenc Rorer. We believe that the costs to our customers of switching to a competitor's software product, or of taking significant system management functions in-house, are substantial. Nevertheless, some of our customers have switched, and in the future other customers may switch, to software products and/or services offered by our competitors. If any of our major customers were to make such a change, our business, operating results or financial condition would be materially and adversely affected.

#### WE MAY BE UNABLE TO SUCCESSFULLY INTRODUCE NEW PRODUCTS OR RESPOND TO TECHNOLOGICAL CHANGE

The market for sales force software products changes rapidly because of frequent improvements in computer hardware and software technology. Our future success will depend, in part, on our ability to:

- use available technologies and data sources to develop new products and services and to enhance our current products and services;
- introduce new solutions that keep pace with developments in our target markets; and
- address the changing and increasingly sophisticated needs of our customers.

We cannot assure you that we will successfully develop and market new products or product enhancements that respond to technological advances in the marketplace, or that we will do so in a timely fashion. We also cannot assure you that our products will adequately and competitively address the needs of the changing marketplace.

Competition for software products has been characterized by shortening product cycles. We may be materially and adversely affected by this trend if the product cycles for our products prove to be shorter than we anticipate. If that happens, our business, operating results or financial condition could be adversely affected.

To remain competitive, we also may have to spend more of our revenues on product research and development than we have in the past. As a result, our results of operations could be materially and adversely affected.

Further, our software products are technologically complex and may contain previously undetected errors or failures. Such errors have occurred in the past and we cannot assure you that, despite our testing, our new products will be free from errors. Errors that result in losses or delays could have a material adverse effect on our

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business, operating results or financial condition.

#### WE ARE EXPOSED TO RISKS ASSOCIATED WITH THE YEAR 2000 -- YEAR 2000 READINESS DISCLOSURE

DEMAND FOR OUR SOFTWARE PRODUCTS AND SERVICES MAY DECLINE BEFORE AND AFTER THE YEAR 2000

A substantial amount of demand for our software may come from customers in the process of replacing and upgrading software applications to accommodate the change in date to the Year 2000. This demand has contributed to our 1998 sales growth and we expect it to contribute to our 1999 sales growth. Once customers have completed these activities, we may experience a deceleration in revenue growth. In addition, the expense and time associated with remediation efforts by customers to address Year 2000 compliance problems for software products other than ours may cause our customers to delay the purchase of, or reduce the amount they spend on, our products and services, both before and after January 1, 2000. Such reductions could have a material adverse effect on our business, operating results or financial condition.

#### OUR YEAR 2000 REMEDIATION EFFORTS MAY NOT BE SUCCESSFUL

As part of our Year 2000 compliance plan, we have assessed the readiness of our internal computer software programs and operating systems. We believe our programs and systems will be substantially Year 2000 compliant by the end of the second quarter of 1999. However, if additional defects, including defects in hardware, are identified or if necessary modifications and conversions are not made, or are not completed in a timely manner, the Year 2000 problem could have a material adverse effect on our business, operating results or financial condition.

#### WE MAY INCUR MATERIAL EXPENSES IN CONNECTION WITH ANY CLAIM RELATING TO YEAR 2000 COMPLIANCE OF OUR OWN PRODUCTS OR THE PRODUCTS OF THIRD PARTIES

We believe most of the sales force software products that we currently offer to our customers, prior to any customization, are Year 2000 compliant. We cannot assure you, however, that our current products do not contain undetected errors or defects associated with Year 2000 date functionality that may result in material costs to us.

Some of our older products will not, and some may not, accurately process dates after December 31, 1999. To the extent any of these products are still in use in 1999, we will continue to attempt to migrate our customers to products that are Year 2000 compliant. We cannot assure you that this will occur. A failure to migrate any customer to a product that is Year 2000 compliant could adversely affect our business, operating results or financial condition. We may also experience increased expenses which we cannot recoup from current customers in addressing their migration to software that is Year 2000 compliant. We may incur additional expenses associated with remediating software products of our current customers.

In addition, some of our customers may attempt to hold us responsible for Year 2000 compliance of hardware or software not supplied or created by us, but used in conjunction with one or more of our products. For example, our customers' computer hardware and software, with which our software must interface, may not properly handle date information after the Year 2000 without error or interruption.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000 Readiness Disclosure" for detailed information on our state of readiness, potential risks and contingency plans regarding the Year 2000 issue.

#### INCREASED COMPETITION MAY RESULT IN PRICE REDUCTIONS AND DECREASED DEMAND FOR OUR PRODUCTS AND SERVICES

We believe there are approximately ten other companies that sell sales force software products and specifically target the pharmaceutical industry, including:

- four competitors that are actively selling sales force software products in more than one country; and

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- three competitors that also offer sales force support services.

We believe that most of our competitors offer sales force software products and/or services that do not address the variety of customer needs that our solutions address. However, these competing solutions may cost less than our solutions. We also face competition from many vendors that market and sell sales force automation and SFE solutions in the consumer packaged goods or CPG market. In addition, we also compete with various companies that provide support services similar to our services. We believe our ability to compete depends on many factors, some of which are beyond our control, including:

- the number and success of new market entrants supplying competing sales force products or support services;
- expansion of product lines by, or consolidation among, our existing

competitors; and

- development and/or operation of in-house sales force software products or services by our customers and potential customers.

Some of our competitors and potential competitors are part of large corporate groups and have longer operating histories and significantly greater financial, sales, marketing, technology and other resources than we have. We cannot assure you that we will be able to compete successfully with these companies or that competition will not have a material adverse effect on our business, operating results or financial condition. See "Business -- Competition" for detailed information regarding the competitive environment in which we operate.

#### SOME OF OUR CUSTOMERS RELY ON OUR COMPETITORS FOR MARKET DATA

Current market data on the sales of prescription-only pharmaceutical products is an important element for the operation of our sales force software products in the prescription-only pharmaceutical industry. Our customers use this data to guide and organize their sales forces and marketing efforts. Some of the leading purveyors of this market information compete with us either directly or through affiliates or may compete with us in the future. If these purveyors of market information require pharmaceutical companies to use their sales force products and/or services, our business, operating results and financial condition may be materially and adversely affected.

#### OUR INTERNATIONAL OPERATIONS HAVE RISKS THAT OUR DOMESTIC OPERATIONS DO NOT

The sale of our products and services in foreign countries accounts for, and is expected in the future to account for, a material part of our revenues. These sales are subject to risks inherent in international business activities, including:

- any adverse change in the political or economic environments in these countries;
- economic instability;
- any adverse change in tax, tariff and trade or other regulations;
- the absence or significant lack of legal protection for intellectual property rights;
- exposure to exchange rate risk for service revenues which are denominated in currencies other than U.S. dollars; and
- difficulties in managing an organization spread over various jurisdictions.

#### OUR SUCCESS DEPENDS ON RETAINING OUR KEY SENIOR MANAGEMENT TEAM AND ON ATTRACTING AND RETAINING QUALIFIED PERSONNEL

Our future success depends, to a significant extent, upon the contributions of our executive officers and key sales, technical and customer service personnel. We maintain a \$3 million key man insurance policy on John E. Bailye, our President and Chief Executive Officer, the proceeds of which are payable to Dendrite. Our future success also depends on our continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense. We have at times experienced difficulties in recruiting qualified personnel and we may experience such difficulties in the future. Any such difficulties

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could adversely affect our business, operating results or financial condition. See "Management" for detailed information concerning our key personnel.

#### OUR INABILITY TO MANAGE OUR GROWTH COULD ADVERSELY AFFECT OUR BUSINESS

To manage our growth effectively, we must continue to strengthen our operational, financial and management information systems and expand, train and manage our work force. However, we may not be able to do so effectively or on a timely basis. Failure to do so could have a material adverse effect upon our business, operating results or financial condition.

#### OUR BUSINESS DEPENDS ON PROPRIETARY TECHNOLOGY THAT WE MAY NOT BE ABLE TO PROTECT COMPLETELY

We rely on a combination of trade secret, copyright and trademark laws, non-disclosure and other contractual agreements and technical measures to protect our proprietary technology. We cannot assure you that the steps we take will prevent misappropriation of this technology. Further, protective actions we have taken or will take in the future may not prevent competitors from developing products with features similar to our products. In addition,

effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. We have, on occasion, in response to a request by our customer, entered into agreements which require us to place our source code in escrow to secure our service and maintenance obligations.

Further, we believe that our products and trademarks do not infringe upon the proprietary rights of third parties. However, third parties may assert infringement claims against us in the future that may result in the imposition of damages or injunctive relief against us. In addition, any such claims may require us to enter into royalty arrangements. Any of these results could materially and adversely affect our business, operating results or financial condition.

#### WE HAVE LIMITED EXPERIENCE IN MARKETING TO THE CONSUMER PACKAGED GOODS MARKET

We market and sell SFE solutions to companies in the CPG market. The selling environment in this market has unique characteristics that differentiate it from the pharmaceutical market. In addition, we believe that the CPG market is composed of sub-markets, each of which may have unique characteristics. Accordingly, we cannot assure you that we will be able to replicate in this market the success we have achieved in the ethical pharmaceutical market.

#### PROVISIONS OF OUR CHARTER DOCUMENTS AND NEW JERSEY LAW MAY DISCOURAGE AN ACQUISITION OF DENDRITE

Provisions of our Restated Certificate of Incorporation, our By-laws and New Jersey law may make it more difficult for a third party to acquire us. For example, the Board of Directors may, without the consent of the stockholders, issue preferred stock with rights senior to those of the common stock.

#### OUR COMMON STOCK MAY BE SUBJECT TO PRICE FLUCTUATIONS

The market price of our common stock may be significantly affected by the following factors:

- the announcement or the introduction of new products by us or our competitors;
- quarter-to-quarter variations in our operating results and changes in earnings estimates by analysts;
- market conditions in the technology, healthcare and other growth sectors; and
- general consolidation in the healthcare information industry which may result in the market perceiving us or other comparable companies as potential acquisition targets.

Further, the stock market has experienced on occasion extreme price and volume fluctuations. The market prices of the equity securities of many technology companies have been especially volatile and often have been unrelated to the operating performance of such companies. These broad market fluctuations may have a material adverse effect on the market price of our common stock. See "Price Range of Common Stock".

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#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### FOREIGN CURRENCY RISK

Because we have operations in a number of countries, we face exposure to adverse movements in foreign currency exchange rates. As currency rates change, translation of the income statements of our international entities from local currencies to U.S. dollars affects year-over-year comparability of operating results. We do not hedge translation risks because we generally reinvest the cash flows from international operations.

Management estimates that a 10% change in foreign exchange rates would impact reported operating profit by less than \$500,000. This sensitivity analysis disregards the possibility that rates can move in opposite directions and that losses from one area may be offset by gains from another area.

The introduction of the Euro as a common currency for members of the European Monetary Union took place on January 1, 1999. We have not determined what impact, if any, the Euro has on our foreign exchange exposure.

##### INTEREST RATE RISK

Our exposure to market risk related to changes in interest rates primarily to our investment portfolio. We invest in instruments that meet high credit quality standards, as specified in our investment policy. The policy also limits the amount of credit exposure to any one issue, issuer and type of investment.

As of December 31, 1998, our investments consisted primarily of commercial paper maturing in the first four months of 1999. Due to the average maturity and conservative nature of our investment portfolio, a sudden change in interest rates would not have a material effect on the value of the portfolio. Management estimates that had the average yield of the Company's investments decreased by 100 basis points, our interest income for the year ended December 31, 1998 would have decreased by less than \$150,000. This estimate assumes that the decrease occurred on the first day of 1998 and reduced the yield of each investment instrument by 100 basis points. The impact on our future interest income, of future changes in investment yields will depend largely on the gross amount of our investments. See Item 7 -- "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources".

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Company's 1998 Financial Statements, together with the report thereon of Arthur Andersen LLP, are included elsewhere herein. See Item 14 for a list of Financial Statements and Financial Statement Schedules.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information regarding directors and executive officers of the Company will be set forth in the Registrant's Notice of Annual Meeting of Shareholders and Proxy Statement, expected to be dated on or about April 15, 1999 (the "Proxy Statement"), which information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

Information regarding the Company's compensation of its directors and executive officers will be set forth in the Proxy Statement, which information is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management will be set forth in the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information regarding transactions with the Company's directors and executive officers will be set forth in the Proxy Statement, which information is incorporated herein by reference.

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PART IV

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

(a) The following documents are filed as part of this report:

1. Financial Statements:

Report of Independent Public Accountants  
Consolidated Balance Sheets  
Consolidated Statements of Operations  
Consolidated Statements of Stockholders' Equity  
Consolidated Statements of Cash Flows  
Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

None.

3. Exhibits:

3.1 Restated Certificate of Incorporation of the Company, as amended (incorporated herein by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission (the "Commission") June 30, 1996)

3.2 By-laws of the Company, as amended (incorporated herein by reference to the Exhibit to the Company's



- 4.1 Specimen of Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)
- 4.2 Registration Rights Agreement dated October 2, 1991 between the several purchasers named therein and the Company (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)
- 4.3 Amendment to Registration Rights Agreement dated April 23, 1992 between the Company and the parties named therein as shareholders of the Company (incorporated herein by reference to Exhibit 4.3 of Amendment 1 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)
- 10.1 January 1992 Stock Plan (incorporated herein by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)\*
- 10.2 October 1992 Stock Option Plan for Senior Management (incorporated herein by reference to Exhibit 10.37 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)\*
- 10.3 1997 Amended and Restated Stock Incentive Plan (incorporated herein by reference to Exhibit 4.2 to the Company's Post-Effective Amendment No. 1 to its Registration Statement on Form S- 8, filed with the Commission November 10, 1997)\*
- 10.4 1997 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8, filed with the Commission April 1, 1997)\*
- 10.5 Lease of 1200 Mount Kemble Avenue, Morristown, New Jersey (incorporated herein by reference to Exhibit 10.40 to the Company's Registration Statement on Form S-1, filed with the Commission May 17, 1995)
- 10.6 Form of Indemnification Agreement dated as of October 28, 1998 (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission November 18, 1998)\*
- 10.7 Amended and Restated Credit Agreement, entered into as of November 30, 1998, between the Company and The Chase Manhattan Bank

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- 10.8 Employment Agreement dated March 25, 1997 with John E. Bailye (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q/A filed with the Commission May 16, 1997)\*
- 10.9 Employment Agreement dated June 2, 1997 with George T. Robson (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission August 14, 1997)\*
- 10.10 Employment Agreement dated June 9, 1997 with Mark Cieplik incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed with the Commission August 14, 1997)\*
- 10.11 Employment Agreement dated July 24, 1997 with Bruce Savage (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission November 14, 1997)\*
- 10.12 Employment Agreement dated October 1, 1991 with Teresa F. Winslow (incorporated herein by reference to Exhibit 10.50 to the Company's Registration

- 10.13 Consulting Agreement dated as of January 5, 1998 with Edward Kfoury (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report filed with the Commission May 14, 1998.)
- 10.14 Deferred Compensation Plan dated as of September 1, 1998 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report filed with the Commission August 14, 1998.)\*
- 10.15 Deferred Compensation Plan Trust Agreement dated as of September 1, 1998 (incorporated herein by reference to Exhibit 10.2 of the Company's Quarterly Report filed with the Commission August 14, 1998.)\*
- 21 Subsidiaries of the Registrant
- 23 Consent of Independent Public Accountants
- 27 Financial Data Schedule

(b) Reports on Form 8-K.

None

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\* These contracts are identified pursuant to the requirement in Item 14 to identify "each management contract or compensatory plan or arrangement required to be filed as an exhibit".

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DENDRITE INTERNATIONAL, INC.

Date: February \_\_, 1999

By: /s/ John E. Bailye

-----  
John E. Bailye  
Chief Executive Officer and President

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.

<TABLE>

<CAPTION>

Name	Title	Date
----	-----	----
<S>	<C>	<C>
/s/ John E. Bailye ----- John E. Bailye	Chief Executive Officer, President and Director (Principal Executive Officer)	March 23, 1999
/s/ George T. Robson ----- George T. Robson	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 23, 1999
/s/ Bernard M. Goldsmith ----- Bernard M. Goldsmith	Director	March 23, 1999
/s/ Edward J. Kfoury ----- Edward J. Kfoury	Director	March 23, 1999
/s/ Paul A. Margolis ----- Paul A. Margolis	Director	March 23, 1999
/s/ John H. Martinson -----	Director	March 23, 1999

## EXHIBIT INDEX

Exhibit No.	Exhibit
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- 10.14 Deferred Compensation Plan dated as of September 1, 1998 (incorporated herein by reference to Exhibit 10.1 of the Company's Quarterly Report filed with the Commission August 14, 1998.)
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- 27 Financial Data Schedule

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Report of Independent Public Accountants

To Dendrite International, Inc.:

We have audited the accompanying consolidated balance sheets of Dendrite International, Inc. (a New Jersey corporation) and Subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dendrite International, Inc. and Subsidiaries as of December 31, 1997 and 1998, 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.

ARTHUR ANDERSEN LLP

Philadelphia, Pa.,  
January 27, 1999

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DENDRITE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	DECEMBER 31,	
	1997	1998
ASSETS		
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 15,917	\$ 31,298
Short-term investments.....	2,955	9,614
Accounts receivable, net.....	24,724	17,082
Prepaid expenses and other.....	2,222	3,090
Prepaid taxes.....	--	921
Deferred tax asset.....	441	467
	-----	-----
Total current assets.....	46,259	62,472
PROPERTY AND EQUIPMENT, net.....	3,110	5,267
DEFERRED TAXES.....	667	1,077
GOODWILL, net.....	575	2,496
CAPITALIZED SOFTWARE DEVELOPMENT COSTS, net.....	2,408	3,503
	-----	-----
	\$ 53,019	\$ 74,815
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 2,211	\$ 2,002
Income taxes payable.....	867	122
Accrued compensation and benefits.....	3,439	4,012
Other accrued expenses.....	4,352	6,953
Deferred revenues.....	1,409	1,420
	-----	-----
Total current liabilities.....	12,278	14,509
DEFERRED RENT.....	598	392
	-----	-----
CAPITALIZED LEASE OBLIGATIONS.....	--	355
DEFERRED TAXES.....	1,970	2,889
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, 10,000,000 shares authorized, none issued.....	--	--
Common stock, no par value, 100,000,000 shares authorized, 22,659,548 and 23,357,497 shares issued and 22,258,548 and 22,956,497 outstanding.....	32,814	40,050
Retained earnings.....	9,268	20,535
Deferred compensation.....	(1,141)	(1,494)
Accumulated other comprehensive income.....	(841)	(494)
Less treasury stock, at cost.....	(1,927)	(1,927)
	-----	-----
Total stockholders' equity.....	38,173	56,670
	-----	-----
	\$ 53,019	\$ 74,815
	=====	=====

&lt;/TABLE&gt;

The accompanying notes are an integral part of these statements.

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## DENDRITE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
REVENUES:			
License fees.....	\$ 8,774	\$ 7,707	\$ 12,827
Services.....	57,472	70,739	99,691
	-----	-----	-----
	66,246	78,446	112,518

COSTS OF REVENUES:			
Cost of license fees.....	832	1,758	2,314
Cost of services.....	31,544	36,894	47,558
	32,376	38,652	49,872
Gross margin.....	33,870	39,794	62,646
OPERATING EXPENSES:			
Selling, general and administrative.....	26,440	29,905	39,853
Research and development.....	6,834	2,676	3,687
Write-off of in-process research and development.....	2,640	--	1,230
	35,914	32,581	44,770
Operating income (loss).....	(2,044)	7,213	17,876
INTEREST INCOME.....	1,167	529	1,090
OTHER EXPENSE.....	(391)	(201)	(317)
Income (loss) before income taxes.....	(1,268)	7,541	18,649
INCOME TAXES.....	644	2,931	7,382
NET INCOME (LOSS).....	\$ (1,912)	\$ 4,610	\$ 11,267
NET INCOME (LOSS) PER SHARE:			
Basic.....	\$ (0.09)	\$ 0.21	\$ 0.50
Diluted.....	\$ (0.09)	\$ 0.20	\$ 0.46
SHARES USED IN COMPUTING NET INCOME (LOSS) PER SHARE:			
Basic.....	22,112	22,262	22,580
Diluted.....	22,112	23,036	24,623

</TABLE>

The accompanying notes are an integral part of these statements.

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DENDRITE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN THOUSANDS)

<TABLE>  
<CAPTION>

	COMMON STOCK		RETAINED EARNINGS	DEFERRED COMPENSATION	ACCUMULATED OTHER COMPREHENSIVE INCOME	COMPREHENSIVE INCOME	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
	SHARES	AMOUNT						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, DECEMBER 31, 1995.....	21,352	\$26,809	\$6,570	\$(502)	\$(567)		\$	\$32,310
Issuance of common stock.....	376	1,094	--	(838)	--		--	256
Amortization of deferred compensation.....	--	--	--	113	--		--	113
Issuance of common stock from consummation of public offering, net of offering costs.....	600	4,295	--	--	--		--	4,295
Comprehensive income:								
Net loss.....	--	--	(1,912)	--	--	\$(1,912)	--	(1,912)
Other comprehensive income:								
Realization of gain on short-term investments..	--	--	--	--	(14)	(14)	--	(14)
Currency translation adjustment.....	--	--	--	--	128	128	--	128
Comprehensive income.....						\$(1,798)		
BALANCE, DECEMBER 31, 1996.....	22,328	32,198	4,658	(1,227)	(453)		--	35,176
Issuance of common stock.....	332	616	--	(20)	--		--	596
Amortization of deferred compensation.....	--	--	--	106	--		--	106
Purchase of 401,000 shares of treasury stock.....	(401)	--	--	--	--		(1,927)	(1,927)
Comprehensive income:								
Net income.....	--	--	4,610	--	--	\$4,610	--	4,610

Other comprehensive income:								
Currency translation adjustment.....	--	--	--	--	(388)	(388)	--	(388)
Comprehensive income.....						\$4,222		
BALANCE, DECEMBER 31, 1997.....	22,259	32,814	9,268	(1,141)	(841)		(1,927)	38,173
Issuance of common stock.....	697	5,876	--	(394)				5,482
Amortization of deferred compensation.....	--	--	--	41			--	41
Stock option income tax benefits.....	--	1,360	--	--			--	1,360
Comprehensive income:								
Net income.....	--	--	11,267	--	--	\$11,267	--	11,267
Other comprehensive income:								
Currency translation adjustment.....	--	--	--	--	347	347	--	347
Comprehensive income.....						\$11,614		
BALANCE, DECEMBER 31, 1998.....	22,956	\$40,050	\$20,535	\$(1,494)	\$(494)		\$(1,927)	\$56,670

</TABLE>

The accompanying notes are an integral part of these statements.

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DENDRITE INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income (loss).....	\$ (1,912)	\$ 4,610	\$ 11,267
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	2,037	2,740	3,020
Deferred income taxes (benefit).....	(304)	808	160
Write-off of in-process research and development.....	2,640	--	1,230
Changes in assets and liabilities, net of effect from acquisition:			
(Increase) decrease in accounts receivable.....	(3,193)	(6,137)	7,114
Increase in prepaid expenses and other.....	(253)	(669)	(904)
(Increase) decrease in prepaid income taxes.....	(1,397)	1,397	--
Increase in accounts payable and accrued expenses.....	2,461	1,092	2,886
Increase (decrease) in deferred rent.....	262	(128)	(206)
Increase (decrease) in income taxes payable.....	(1,931)	283	(427)
(Increase) decrease in deferred revenues.....	(1,174)	(678)	66
Net cash provided by (used in) operating activities.....	(2,764)	3,318	24,206
INVESTING ACTIVITIES:			
Purchases of short-term investments.....	(8,271)	(3,800)	(13,552)
Sales of short-term investments.....	10,805	9,266	6,893
Purchases of businesses, net of cash acquired.....	(2,965)	--	(2,295)
Purchases of property and equipment.....	(772)	(1,246)	(1,974)
Additions to capitalized software development costs.....	(1,296)	(919)	(1,637)
Net cash provided by (used in) investing activities.....	(2,499)	3,301	(12,565)
FINANCING ACTIVITIES:			
Payments on capital lease obligations.....	--	--	(93)
Issuance of Common stock from consummation of public offering, net of offering costs.....	4,295	--	--
Purchase of treasury stock.....	--	(1,927)	--
Issuance of common stock.....	256	596	3,703
Net cash provided by (used in) financing activities.....	4,551	(1,331)	3,610
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH.....	94	(283)	130
NET INCREASE (DECREASE) IN CASH.....	(618)	5,005	15,381

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR.....	11,530	10,912	15,917
		-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR.....	\$ 10,912	\$ 15,917	\$ 31,298
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part of these statements.

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DENDRITE INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

THE COMPANY

Dendrite International, Inc. and Subsidiaries (the "Company") provides comprehensive Sales Force Effectiveness solutions used to manage, coordinate and control the activities of large sales forces in complex selling environments primarily within the ethical pharmaceutical industry. The Company also markets its products in the consumer packaged goods market. The Company's solutions combine proprietary software products with extensive system support services.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Dendrite International, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation," substantially all assets and liabilities of the Company's wholly-owned international subsidiaries are translated at their respective period-end currency exchange rates and revenues and expenses are translated at average currency exchange rates for the period. The resulting translation adjustments are accumulated in a separate component of stockholders' equity. All foreign currency transaction gains and losses are included in other expense on the accompanying statements of operations and are immaterial in each year.

Use of Estimates

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

Revenue Recognition

The Company generally recognizes license fees as revenue using the percentage-of-completion method over a period of time that commences with the execution of the license agreement and ends with the completion of initial customization and installation, if any. Some of the Company's newer products do not require initial customization. If the customer does not request such customization, the Company generally recognizes the license fees from these products upon delivery, assuming the services to be provided are not essential to the functionality of the software. The Company's software licensing agreements provide for a warranty period (typically 180 days from the date of execution of the agreement). The portion of the license fee associated with the warranty period is unbundled from the license fee and is recognized ratably over the warranty period. The Company does not recognize any license fees unless persuasive evidence of an arrangement exists, the license amount is fixed and determinable and collectability is probable.

The Company recognizes license fees from certain third party software embedded into the product when the related license fees are recognized. The cost of third party software is included in cost of license fees in the accompanying statements of operations. For the years ended December 31, 1996, 1997 and 1998, the Company recorded \$112,000, \$796,000 and \$1,208,000, respectively, of license fees and \$93,000, \$658,000 and \$922,000, respectively, of cost of license fees relating to third party software.

Revenues from services are recognized as the services are performed. Revenues from customer maintenance, support and data server rental agreements are recognized ratably over the term of the agreements.

Services are generally provided under multiyear contracts. The contracts specify the payment terms, which are generally over the term of the contract and generally provide for termination in the event of breach, as



defined in the contract.

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#### Deferred Revenues

Deferred revenues represent amounts collected from or invoiced to customers in excess of revenues recognized. Such amounts are recognized as revenue when the related significant performance obligations have been satisfied.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

#### Supplemental Cash Flow Information

For the years ended December 31, 1996 and 1997, the Company paid no interest. For the year ended December 31, 1998, the Company paid interest of \$10,000. For the years ended December 31, 1996, 1997 and 1998, the Company paid income taxes of \$4,346,000, \$422,000 and \$7,528,000, respectively.

The following table lists noncash assets that were acquired and liabilities that were assumed as a result of the acquisitions discussed in Note 2:

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,	
	1996	1998
<S>	<C>	<C>
Noncash assets:		
Accounts receivable.....	\$ 823,000	\$ 301,000
Prepaid expenses.....	31,000	59,000
Property and equipment.....	91,000	408,000
Capitalized software development costs.....	--	850,000
Goodwill.....	860,000	2,226,000
	-----	-----
	1,805,000	3,844,000
Assumed liabilities:		
Accounts payable.....	(488,000)	(294,000)
Income taxes payable.....	--	(121,000)
Accrued compensation and benefits.....	(250,000)	--
Other accrued expenses.....	(613,000)	(396,000)
Deferred revenues.....	(129,000)	(107,000)
Deferred taxes.....	--	(323,000)
	-----	-----
Net noncash assets acquired.....	325,000	2,603,000
Write-off of in-process research and development.....	2,640,000	1,230,000
Purchase price paid in stock.....	--	(1,538,000)
	-----	-----
Cash paid, net of cash acquired.....	\$ 2,965,000	\$ 2,295,000
	=====	=====

</TABLE>

#### Short-Term Investments

The Company follows SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Management determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company invests in highly rated corporate bonds and municipal bonds. At December 31, 1997 and 1998, all marketable securities have been classified as available-for-sale. Available-for-sale securities are carried at fair value, based on quoted market prices, with unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. Realized gains and losses, computed using specific identification, and declines in value determined to be permanent are recognized in the statement of operations.

#### Property and Equipment

Fixed assets are stated at cost. Depreciation and amortization are provided generally on the straight-line basis over the estimated useful lives of the respective assets, which range from 3 to 15 years. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the lease terms, whichever are shorter. Maintenance, repairs and minor replacements are charged to expense as incurred.

## Capitalized Software Development Costs

In accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," the Company capitalizes certain costs related to the development of new software products or the enhancement of existing software products for sale or license. These costs are capitalized from the point in time that technological feasibility has been established, as evidenced by a working model or a detailed working program design, to the point in time that the product is available for general release to customers. Capitalized software development costs are amortized on a product by product basis over the greater of the ratio of current revenues to total anticipated revenues or on a straight-line basis over the estimated economic lives of the products (no longer than four years), beginning with the release to the customer. Research and development costs incurred prior to establishing technological feasibility and costs incurred subsequent to general product release to customers are charged to expense as incurred. The Company continually evaluates whether events or circumstances have occurred that indicate that the remaining useful lives of the capitalized software development costs should be revised or that the remaining balance of such assets may not be recoverable. As of December 31, 1998, management believes that no revisions to the remaining useful lives or write-down of capitalized development costs is required.

Capitalized software development costs are net of accumulated amortization of \$3,041,000 and \$4,433,000 at December 31, 1997 and 1998, respectively. The Company capitalized software development costs of \$1,296,000, \$919,000 and \$2,487,000 for the years ended December 31, 1996, 1997 and 1998, respectively. Included in the 1998 additions to capitalized software development costs are \$850,000 of costs related to the acquisition of Associated Business Computing N.V. and an affiliated company (collectively, "ABC"). Amortization of capitalized software development costs for the years ended December 31, 1996, 1997 and 1998, was \$739,000, \$1,100,000 and \$1,392,000, respectively, and is included in cost of license fees in the accompanying consolidated statements of operations.

## Intangible Assets

Goodwill of \$3,086,000 is being amortized on a straight-line basis over five to seven years (see Note 2). Amortization of goodwill for the years ended December 31, 1996, 1997 and 1998 was \$113,000, \$172,000 and \$305,000, respectively.

## Impairment of Long-Lived Assets

The Company follows SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company reviews its long-lived assets, including property and equipment, capitalized software development costs, and goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

## Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates that are expected to be in effect when the differences reverse.

At December 31, 1998, there were approximately \$3,581,000 of accumulated undistributed earnings of subsidiaries outside the United States that are considered to be reinvested indefinitely. If such earnings were remitted to the Company, applicable U.S. federal income and foreign withholding taxes may be partially offset by foreign tax credits.

## Major Customers

In the year ended December 31, 1996, the Company derived approximately 36% and 14% of its revenues from its two largest customers. In the year ended December 31, 1997, the Company derived approximately 33%, 15% and 11% from its three largest customers, two of which were the Company's largest customers in 1996. In the year ended December 31, 1998, the Company derived approximately 36% and 12% of its revenues from its two largest customers, both of which were among the Company's three largest customers in 1997.

## Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances and trade receivables. The Company invests its excess cash with large banks. The Company's customer base principally comprises companies within the ethical pharmaceutical industry. The Company does not require collateral from its customers.

## Net Income (Loss) Per Share

The Company has presented net income (loss) per share pursuant to Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," and the Securities and Exchange Commission Staff Accounting Bulletin No. 98.

Basic income (loss) per share (Basic EPS) was computed by dividing the net income (loss) for each year by the weighted average number of shares of common stock outstanding for each year. Diluted income (loss) per share (Diluted EPS) was computed by dividing net income (loss) for each year by the weighted average number of shares of common stock and common stock equivalents outstanding during each year.

The computation of shares used for Basic EPS and Diluted EPS is as follows:

	YEAR ENDED DECEMBER 31,					
	1996			1997		
	LOSS (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
Net income (loss).....	\$ (1,912)			\$ 4,610		
Basic EPS.....		22,112	\$ (0.09)		22,262	\$ 0.21
Effect of dilutive securities						
Stock options.....		--			774	
Diluted EPS.....		22,112	\$ (0.09)		23,036	\$ 0.20

<TABLE>  
<CAPTION>

	1998		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
	Net income (loss).....	\$ 11,267	
Basic EPS.....		22,580	\$ 0.50
Effect of dilutive securities			
Stock options.....		2,043	
Diluted EPS.....		24,623	\$ 0.46

</TABLE>

## Recently Issued Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities and is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Management believes that SFAS 133 will have no impact on the Company's consolidated financial statements.

## Recapitalization

In August 1998, the Company amended its articles of incorporation to reflect a 2-for-1 split of its common shares and to change the number of authorized common shares to 100,000,000. All references in the consolidated financial statements to the number of shares and to per share amounts have been retroactively restated to reflect these changes.

Certain reclassifications have been made to prior year amounts to conform with current year presentation.

During the second quarter of 1998, the Company determined that costs associated with certain activities that were previously classified as research and development expense, should be classified as cost of services, as these expenditures related to client specific activities. For consistency of presentation, prior periods have been reclassified. The reclassification for the years ended December 31, 1996 and 1997 was \$1,913,000 and \$2,540,000, respectively.

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## 2. ACQUISITIONS:

On May 1, 1996, the Company acquired 100% of the capital stock of SRCI, S.A. ("SRCI") for approximately \$3,198,000 and transaction costs of \$302,000. The purchase was accounted for under the purchase method of accounting, whereby the purchase price is allocated to the assets acquired and liabilities assumed of SRCI based on their fair market values at the acquisition date. The excess of purchase price over the fair value of net assets acquired was assigned to identifiable intangibles. The Company assigned \$2,640,000 to in-process research and development and such amount was written off in the accompanying consolidated statements of operations. The Company also recorded \$860,000 as goodwill. SRCI's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

On July 24, 1998, the Company acquired 100% of the capital stock of ABC for approximately \$4,013,000 and transaction costs of \$150,000. The purchase was accounted for under the purchase method of accounting, whereby the purchase price is allocated to the assets and liabilities assumed of ABC based on their respective fair market values at the acquisition date. The excess of purchase price over the fair value of net assets acquired was assigned to identifiable intangibles. The Company assigned \$1,230,000 to in-process research and development and such amount was written-off in the accompanying consolidated statements of operations. The Company also recorded \$2,226,000 as goodwill. ABC's results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

## 3. PROPERTY AND EQUIPMENT:

&lt;TABLE&gt;

&lt;CAPTION&gt;

	DECEMBER 31,	
	1997	1998
<S>	<C>	<C>
Computer hardware and other equipment.....	\$ 4,861,000	\$ 7,471,000
Furniture and fixtures.....	1,573,000	1,692,000
Leasehold improvements.....	870,000	1,557,000
	7,304,000	10,720,000
Less -- Accumulated depreciation and amortization.....	(4,194,000)	(5,453,000)
	\$ 3,110,000	\$ 5,267,000
	=====	=====

&lt;/TABLE&gt;

## 4. REVOLVING LINE OF CREDIT:

During the year ended December 31, 1998, the Company amended its revolving line of credit agreement with a bank which provides for borrowings of up to \$15,000,000 and is available to finance working capital needs and possible future acquisitions. The agreement requires, among other covenants, that the Company maintain a minimum consolidated net worth, measured quarterly, which is equal to the Company's net worth as of December 31, 1997 plus 50% of the Company's net income earned after January 1, 1998, and 75% of the net proceeds of any stock offerings. This covenant has the effect of limiting the amount of cash dividends the Company may pay. As of December 31, 1998, approximately \$43,806,000 was available for the payment of dividends under this covenant. The line of credit expires on November 30, 2001. The Company has never had any borrowings under this revolving line of credit.

## 5. INCOME TAXES:

The components of income (loss) before income taxes were as follows:

<TABLE>  
<CAPTION>

YEAR ENDED DECEMBER 31,

	1996	1997	1998
<S>	<C>	<C>	<C>
Domestic.....	\$ (1,211,000)	\$ 5,990,000	\$ 18,209,000
Foreign.....	(57,000)	1,551,000	440,000
	\$ (1,268,000)	\$ 7,541,000	\$ 18,649,000

</TABLE>

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The components of income taxes were as follows:

<TABLE>  
<CAPTION>

YEAR ENDED DECEMBER 31,

	1996	1997	1998
<S>	<C>	<C>	<C>
Current Provision:			
Federal.....	\$ 575,000	\$ 1,933,000	\$ 6,893,000
State.....	--	--	--
Foreign.....	373,000	190,000	329,000
	948,000	2,123,000	7,222,000
Deferred Provision (Benefit):			
Federal.....	(149,000)	71,000	(199,000)
State.....	102,000	389,000	399,000
Foreign.....	(257,000)	348,000	(40,000)
	(304,000)	808,000	160,000
	\$ 644,000	\$ 2,931,000	\$ 7,382,000

</TABLE>

The reconciliation of the statutory Federal income tax rate to the Company's effective income tax rate is as follows:

<TABLE>  
<CAPTION>

YEAR ENDED DECEMBER 31,

	1996	1997	1998
<S>	<C>	<C>	<C>
Federal statutory tax rate.....	(34.0)%	34.0%	34.0%
Impact of foreign subsidiaries subject to higher tax rates.....	0.2	0.1	--
Impact of enacted change in German tax rates on deferred tax assets.....	4.6	--	--
State income taxes, net of federal tax benefit.....	(5.0)	4.8	3.4
Nondeductible expenses.....	3.8	0.6	0.8
Write-off of in-process research and development.....	81.1	--	2.5
Tax credits utilized.....	--	(0.6)	(1.2)
	50.7%	38.9%	39.5%

</TABLE>

The tax effect of temporary differences as established in accordance with SFAS No. 109 that give rise to deferred income taxes is as follows:

<TABLE>  
<CAPTION>

DECEMBER 31,

	1997	1998
<S>	<C>	<C>
Gross deferred tax asset:		
Depreciation and amortization.....	\$ 303,000	\$ 426,000
Foreign net operating loss.....	1,021,000	1,309,000
Accruals and revenues not currently deductible.....	87,000	234,000

Other.....	418,000	334,000
	-----	-----
	\$ 1,829,000	\$ 2,303,000
	=====	=====
Gross deferred tax liability:		
Capitalized software development costs.....	\$ (598,000)	\$ (1,357,000)
Other.....	(2,093,000)	(2,291,000)
	-----	-----
	\$ (2,691,000)	\$ (3,648,000)
	=====	=====

</TABLE>

The Company has recorded a deferred tax asset of \$1,309,000 reflecting the benefit of approximately \$3,000,000 in foreign loss carryforwards, which expire in varying amounts commencing in 2000. Realization is dependent on generating sufficient foreign taxable income prior to the expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

6. EQUITY PLANS:

STOCK OPTION PLANS

The Company has three stock option plans that provide for the granting of options, the awarding of stock and the purchase of stock. Options granted under the three stock option plans generally vest over a four-year period and are exercisable over a period not to exceed ten years both as determined by the Board of Directors. Incentive stock options are granted at fair value. Nonqualified options are granted at exercise prices determined by the Board of Directors.

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Information with respect to the options under the three stock option plans is as follows:

	SHARES	EXERCISE PRICE PER SHARE	AGGREGATE PROCEEDS
	-----	-----	-----
<S>	<C>	<C>	<C>
Outstanding December 31, 1995.....	1,169,500	\$0.315 - \$ 9.56	\$ 1,831,337
Granted.....	448,000	\$8.155 - \$15.75	5,711,726
Exercised.....	(368,500)	\$0.315 - \$ 5.00	(256,138)
Canceled.....	(117,500)	\$1.35 - \$15.75	(1,021,855)
	-----	-----	-----
Outstanding December 31, 1996.....	1,131,500	\$0.315 - \$15.75	6,265,070
Granted.....	2,910,000	\$3.969 - \$10.47	20,745,667
Exercised.....	(261,750)	\$0.315 - \$ 5.00	(189,644)
Canceled.....	(213,000)	\$0.315 - \$15.75	(1,969,909)
	-----	-----	-----
Outstanding December 31, 1997.....	3,566,750	\$0.315 - \$15.75	\$ 24,851,184
Grants.....	1,114,000	\$9.500 - \$22.72	18,924,692
Exercises.....	(557,300)	\$0.500 - \$15.75	(3,125,920)
Terminations.....	(336,750)	\$3.97 - \$15.75	(2,357,250)
	-----	-----	-----
Outstanding December 31, 1998.....	3,786,700	\$0.32 - \$22.72	38,292,706
	=====	=====	=====

</TABLE>

At December 31, 1998, there were 1,026,800 options exercisable at \$1.35-\$15.75 per share. The aggregate exercise price of these options was \$7,313,519 as of December 31, 1998.

The Company adopted the disclosure requirement of SFAS No. 123, "Accounting for Stock-Based Compensation," effective for the Company's December 31, 1996 financial statements. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its plans. Accordingly, compensation cost has been computed for the stock option plans based on the intrinsic value of the stock option at the date of grant, which represents the difference between the exercise price and the fair value of the Company's stock. As the exercise price of the stock options equaled the fair value of the Company's stock at the date of option issuance, no compensation cost has been recorded in the accompanying statements of operations. Had compensation cost for the three option plans and the employee stock purchase plan been determined consistent with SFAS No. 123, the Company's net income (loss) and net income (loss) per share would have been adjusted to the following pro forma amounts:

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Net income (loss):			
As reported.....	\$ (1,912,000)	\$ 4,610,000	\$ 11,267,000
Pro forma.....	\$ (2,404,000)	\$ 2,335,000	\$ 5,468,000
Basic income (loss) per share:			
As reported.....	\$ (.09)	\$ .21	\$ .50
Pro forma.....	\$ (.11)	\$ .10	\$ .24
Diluted income (loss) per share:			
As reported.....	\$ (.09)	\$ .20	\$ .46
Pro forma.....	\$ (.11)	\$ .10	\$ .23

Because the SFAS No. 123 method of accounting is not required to be applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years. The weighted average fair value of options granted was \$8.67, \$4.93 and \$10.97 for the years ended December 31, 1996, 1997 and 1998, respectively.

Information with respect to the options outstanding under the three stock option plans at December 31, 1998 is as follows:

EXERCISE PRICE PER SHARE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OF VESTED SHARES
<S>	<C>	<C>	<C>	<C>
\$1.35-\$3.96	531,750	\$ 3.00	7.57	298,750
\$5.00-\$6.37	680,500	\$ 5.90	8.07	205,500
\$8.00-\$11.875	1,605,750	\$ 9.88	8.68	425,550
\$13.25-\$20.94	696,700	\$ 15.53	9.19	97,000
\$21.00-\$22.72	272,000	\$ 22.07	9.73	--
	3,786,700	\$ 10.11	9.01	1,026,800

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 1996, 1997 and 1998: risk-free interest rates ranging from 5.4% to 6.9% based on the rate in effect on the date of grant; no expected dividend yield; expected lives of 6.0 years for the options; and expected volatility of 70%.

EMPLOYEE STOCK PURCHASE PLAN

In 1997, the Company established an employee stock purchase plan that provides full-time employees the opportunity to purchase shares at 85% of fair value on dates determined by the Board of Directors, up to a maximum 10% of their eligible compensation or \$21,250, whichever is less. There were 300,000 shares available for purchase under this plan, of which 42,236 and 55,858 were purchased in 1997 and 1998, respectively.

ANNIVERSARY STOCK PLAN

The Company grants 200 shares of the Company's common stock to all employees who commenced employment prior to December 31, 1998 in July following their fifth anniversary of employment. The cost of the anniversary stock plan is accrued over the employment period of the employees.

7. SAVINGS AND DEFERRED COMPENSATION PLANS:

The Company maintains Employee Savings Plans (the "Plans") that cover substantially all of its full-time U.S. and U.K. employees. All eligible employees may elect to contribute a portion of their wages to the Plans, subject to certain limitations. In addition, the Company contributes to the Plans at the rate of 50% of the employee's contributions up to a maximum of 3% of the employee's salary. The Company's contributions to the Plans were \$222,000, \$212,000 and \$308,000 in the years ended December 31, 1996, 1997 and 1998,

respectively.

The Company also maintains a noncontributory pension plan that covers substantially all of its full-time Japanese employees. All contributions to this pension plan are made by the Company in accordance with prescribed statutory requirements. The Company's contributions to the Plan were \$56,000, \$76,000 and \$74,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

In 1998, the Company created a deferred compensation plan. Under the plan, eligible, highly compensated employees, as defined, can elect to defer a portion of their compensation and determine the nature of the investments which will be used to calculate earnings on the deferred amounts. The Company will record the deferrals as a liability and intends to place a corresponding amount into a trust fund.

8. COMMITMENTS AND CONTINGENCIES:

The Company leases office facilities and equipment under various operating leases with remaining noncancelable lease terms generally in excess of one year. Rent expense was \$3,709,000, \$4,867,000 and \$5,537,000 for the years ended December 31, 1996, 1997 and 1998, respectively. Future minimum rental payments at December 31, 1998, on these leases are as follows:

<TABLE>	
<S>	<C>
1999.....	\$ 7,088,000
2000.....	4,057,000
2001.....	2,218,000
2002.....	1,650,000
2003.....	1,170,000
Thereafter.....	972,000
	-----
	\$ 17,155,000
	=====

</TABLE>

From time to time the Company is involved in certain legal actions arising in the ordinary course of business. In the Company's opinion, the outcome of such actions will not have a material adverse effect on the Company's financial position or results of operations.

9. RELATED-PARTY TRANSACTIONS:

The Company paid approximately \$78,000 and \$33,000 for the years ended December 31, 1996 and 1997, respectively, to an entity owned by the President and Chief Executive Officer of the Company for rental and usage of an aircraft.

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10. GEOGRAPHIC SEGMENT DATA:

See Note 1 for a brief description of the Company's business. The Company is organized by geographic locations and has one reportable segment: the United States. All license fees are recorded in the United States; service fees are recorded in the location in which the sale originates and the service is performed. All transfers between geographic areas have been eliminated from consolidated net sales. Operating income consists of total net sales recorded in the location less operating expenses and does not include interest income, other expense or income taxes. This data is presented in accordance with SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information".

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31,		
	1996	1997	1998
<S>	<C>	<C>	<C>
Revenues:			
United States.....	\$38,521,000	\$49,039,000	\$85,650,000
All Other.....	27,725,000	29,407,000	26,870,000
	-----	-----	-----
	\$66,246,000	\$78,446,000	\$112,520,000
	=====	=====	=====
Operating income (loss):			
United States.....	\$(1,940,000)	5,889,000	\$17,757,000
All Other.....	(104,000)	1,324,000	119,000
	-----	-----	-----
	\$(2,044,000)	\$7,213,000	\$17,876,000
	=====	=====	=====

Identifiable assets:



United States.....	\$35,911,000	\$38,293,000	\$58,938,000
All Other.....	13,304,000	14,726,000	14,620,000
	-----	-----	-----
	\$49,215,000	\$53,019,000	\$73,558,000
	=====	=====	=====

</TABLE>

EXHIBIT 10.7  
CREDIT AGREEMENT

DATED AS OF NOVEMBER 30, 1998

BETWEEN

THE CHASE MANHATTAN BANK

AND

DENDRITE INTERNATIONAL, INC.

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AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDED AND RESTATED CREDIT AGREEMENT is entered into as of November 30, 1998, between Dendrite International, Inc. (the "Company") and The Chase Manhattan Bank (the "Bank").

WHEREAS, the Bank, the Company, and certain Subsidiaries of the Company entered into that certain Credit Agreement dated May 5, 1995 (the "Existing Credit Agreement") pursuant to which the Bank, among other things, agreed, subject to the terms thereof, to make revolving credit loans from time to time to the Company, and the Subsidiaries of the Company that were party to the Existing Credit Agreement, in an aggregate maximum amount of \$5,000,000;

WHEREAS, the Bank and the Company have agreed to amend and restate the terms of the Existing Credit Agreement to, among other things, (i) increase the amount of the Bank's Commitment to \$15,000,000, (ii) release the security interests granted to the Bank by the Company and certain of its Subsidiaries, and (iii) make the Company the sole borrowing party; and

WHEREAS, the Bank has agreed to make available to the Company a revolving credit facility upon the terms and conditions set forth in this Agreement.

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

## ARTICLE I - DEFINITIONS

### 1.01. Certain Defined Terms.

The following terms have the following meanings:

"Acceptable Acquisition" means any Acquisition which (a) has been either (i) approved by the Board of Directors of the corporation which is the subject of such Acquisition or (ii) recommended by such Board to the shareholders of such corporation; and (b) is for a business within similar or complementary lines of business as conducted by the Company on the date hereof; and (c) whose total purchase price is \$50,000,000 or less; and (d) when added to the purchase price of all other Acquisitions within the twelve (12) months immediately preceding the date on which such Acquisition closes, shall not render the aggregate purchase prices for Acquisitions in such period greater than \$50,000,000 (of which no more than \$20,000,000 shall be capital contributions or commitments to make capital contributions to any partnerships or joint ventures in which the Company or any of its Subsidiaries owns less than fifty percent (50%) of the partnership interests or joint venture interests).

"Acquisition" means any transaction pursuant to which the Company or any of its Subsidiaries (a) acquires or commits to acquire equity securities (or warrants, options or other

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rights to acquire such securities) of any corporation other than the Company or any corporation which is not then a Subsidiary of the Company, pursuant to a solicitation of tenders therefor, or in one or more negotiated block, market or other transactions not involving a tender offer, or a combination of any of the foregoing, or (b) makes or commits to make any corporation a Subsidiary of the Company, or causes any such corporation to be merged into the Company or any of its Subsidiaries, in any case pursuant to a merger, purchase of assets or any reorganization providing for the delivery or issuance to the holders of such corporation's then outstanding securities, in exchange for such securities, of cash or securities of the Company or any of its Subsidiaries, or a combination thereof, or (c) purchases all or substantially all of the business or assets of any corporation or (d) makes or commits to make capital contributions to any partnership or joint venture in exchange for a proportionate interest therein.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise.

"Agreement" means this Credit Agreement as such agreement may be amended, modified or restated from time to time.

"Assignee" has the meaning specified in subsection 9.08(a).

"Attorney Costs" means and includes all fees and reasonable disbursements of any law firm or other external counsel, the allocated cost of internal legal services and all disbursements of internal counsel.

"Bank" has the meaning specified in the introductory clause hereto.

"Bankruptcy Code" means the Federal Bankruptcy Reform Act of 1978 (11 U.S.C. Section 101, et seq.) as amended from time to time.

"Base Rate" means, for any day, the higher of: (a) 0.50% per annum above the latest Federal Funds Rate; and (b) the rate of interest in effect for such day as publicly announced from time to time by the Bank as its "reference rate." (The "reference rate" is a rate set by the Bank based upon various factors including The Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the reference rate announced by the Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Loan" means a Revolving Loan that bears interest based on the Base Rate.

"Base Rate Margin" means the percentage determined in accordance with Section 2.08(b).

"Borrowing" means a borrowing hereunder consisting of Revolving Loans of the same

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Type made to the Company on the same day by the Bank under ARTICLE II, and, other than in the case of Base Rate Loans, having the same Interest Period.

"Borrowing Date" means any date on which a Borrowing occurs under Section 2.03.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks in New York City and are authorized or required by law to close and, if the applicable Business Day relates to any Offshore Rate Loan, means such a day on which dealings are carried on in the applicable offshore dollar interbank market.

"Capital Adequacy Regulation" means any guideline, request or directive of any central bank or other Governmental Authority, or any other law, rule or regulation, whether or not having the force of law, in each case, regarding capital adequacy of any bank or of any corporation controlling a bank.

"Capital Lease" means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

"Cash Equivalents" means (a) direct obligations of the United States of America or any agency thereof with maturities of two years or less from the date of acquisition; (b) obligations issued or guaranteed by any agency of the United States of America with maturities of two years or less from the date of acquisition; (c) repurchase agreements fully collateralized by direct obligations of the United States of America or by any agency of the United States of America; (d) corporate debt (commercial paper, master notes and medium term notes) issued by a domestic corporation rated at least "A-1" or "A" by Standard & Poor's Corporation or "P-1" or "A" by Moody's Investors Service, Inc.; (e) certificates of deposit (domestic or foreign) with maturities of one year or less from the date of acquisition issued by any commercial bank (with a rating of A-1 by Standard & Poor's or P-1 by Moody's) operating within the

United States of America having capital and surplus in excess of \$200 million; and (f) any money market mutual fund that invests in (a), (b), (c), (d) or (e) above having assets of at least \$500 million.

"Closing Date" means the date on which all conditions precedent set forth in Section 4.01 are satisfied or waived by the Bank (or, in the case of subsection 4.01(j), waived by the Person entitled to receive such payment).

"Code" means the Internal Revenue Code of 1986, and regulations promulgated thereunder.

"Commitment" has the meaning specified in Section 2.01.

"Commitment Fee Rate" means the percentage determined in accordance with Section 2.08(b).

"Company" has the meaning specified in the introductory clause hereto.

"Compliance Certificate" means a certificate substantially in the form of Exhibit D.

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"Consolidated" means the consolidation of financial reporting between related entities in accordance with GAAP.

"Contingent Obligation" means, as to any Person, any direct or indirect liability of that Person, whether or not contingent, with or without recourse, (a) with respect to any Indebtedness, lease, dividend, letter of credit or other obligation (the "primary obligations") of another Person (the "primary obligor"), including any obligation of that Person (i) to purchase, repurchase or otherwise acquire such primary obligations or any security therefor, (ii) to advance or provide funds for the payment or discharge of any such primary obligation, or to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet item, level of income or financial condition of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (iv) otherwise for the primary purpose of assuring or holding harmless the holder of any such primary obligation against loss in respect thereof (each, a "Guaranty Obligation"); (b) with respect to any Surety Instrument issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings or payments; (c) to purchase any materials, supplies or other property from, or to obtain the services of, another Person if the relevant contract or other related document or obligation requires that payment for such materials, supplies or other property, or for such services, shall be made regardless of whether delivery of such materials, supplies or other property is ever made or tendered, or such services are ever performed or tendered, or (d) in respect of any Swap Contract. The amount of any Contingent Obligation shall, in the case of Guaranty Obligations, be deemed equal to the stated or determinable amount of the primary obligation in respect of which such Guaranty Obligation is made (or any lower stated cap on such Person's liability in respect thereof) or, if not stated or if indeterminable, the maximum reasonably anticipated liability in respect thereof and, in the case of Contingent Obligations in respect of Swap Contracts, shall be equal to the Swap Termination Value.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"Conversion/Continuation Date" means any date on which, under Section 2.04, the Company (a) converts Loans of one Type to another Type, or (b) continues as Loans of the same Type, but with a new Interest Period, Loans having Interest Periods expiring on such date.

"Credit Extension" means and includes the making of any Revolving Loans hereunder.

"Current Assets" means all assets of the Company treated as current assets in accordance with GAAP, excluding, however, from the determination of current assets any prepaid assets.

"Current Liabilities" means all liabilities of the Company treated as current liabilities in accordance with GAAP, including without limitation (a) all obligations payable on demand or written one year after the date in which the determination is made and (b) installments and sinking fund payments required to be made within one year after the date on which

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determination is made, but excluding all such liabilities or obligations which are renewable or extendable at the option of the Company to a date more than one year from the date of determination.

"Current Ratio" of the Company means the ratio of (i) Current Assets to (ii) Current Liabilities each determined on a Consolidated basis.

"Default" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would (if not cured or otherwise remedied during such time) constitute an Event of Default.

"Disclosed Claims" has the meaning specified in Section 5.05.

"Dollars", "dollars" and "\$" each mean lawful money of the United States.

"Domestic Subsidiary" means any Subsidiary incorporated, formed or organized in the United States.

"EBIT" of any Person for any period means the sum of (a) Net Income of such Person for such period; (b) all amounts treated as expenses for interest for such period to the extent included in the determination of such Net Income; and (c) all taxes accrued for such period on or measured by income to the extent included in the determination of such Net Income; provided, however, that Net Income shall be computed for the purposes of this definition without giving effect to extraordinary non-cash losses or extraordinary gains for such period.

"EBITDA" of any Person for any period means the sum of (a) Net Income of such Person for such period; (b) all amounts treated as expenses for depreciation and interest and the amortization of intangibles of any kind for such period to the extent included in the determination of such Net Income; and (c) all taxes accrued for such period on or measured by income to the extent



included in the determination of such Net Income; provided, however, that Net Income shall be computed for the purposes of this definition without giving effect to extraordinary non-cash losses or extraordinary gains for such period.

"Effective Amount" means with respect to any Revolving Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any Borrowings and prepayments or repayments of Revolving Loans occurring on such date.

"Eligible Assignee" means (a) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least \$500,000,000; and/or (b) a Person that is primarily engaged in the business of commercial banking and that is (i) a Subsidiary of the Bank, (ii) a Subsidiary of a Person of which the Bank is a Subsidiary, or (iii) a Person of which the Bank is a Subsidiary.

"Environmental Claims" means all claims, however asserted, by any Governmental Authority or other Person alleging potential liability or responsibility for violation of any Environmental Law, or for release or injury to the environment.

"Environmental Laws" means all federal, state or local laws, statutes, common law

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duties, rules, regulations, ordinances and codes, together with all administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authorities, in each case relating to environmental, health, safety and land use matters.

"ERISA" means the Employee Retirement Income Security Act of 1974, and regulations promulgated thereunder.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Company within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA Event" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Company or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Company or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Company or any ERISA Affiliate.

"Event of Default" means any of the events or circumstances, including

the thresholds and cure periods specified in Section 8.01.

"Exchange Act" means the Securities Exchange Act of 1934, and regulations promulgated thereunder.

"Existing Credit Agreement" has the meaning set forth in the recitals hereto.

"FDIC" means the Federal Deposit Insurance Corporation, and any Governmental Authority succeeding to any of its principal functions.

"Federal Funds Rate" means, for any day, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, "H.15(519)") on the preceding Business Day opposite the caption "Federal Funds (Effective)"; or, if for any relevant day such rate is not so published on any such preceding Business Day, the rate for such day will be the arithmetic mean as determined by the Bank of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that day by each of three leading brokers of Federal funds transactions in New York City selected by the Bank.

"Foreign Subsidiary" means any Subsidiary that is not a Domestic Subsidiary.

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"FRB" means the Board of Governors of the Federal Reserve System, and any Governmental Authority succeeding to any of its principal functions.

"Funded Debt" means (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; and (e) all obligations with respect to Capital Leases.

"Further Taxes" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges (including, without limitation, net income taxes and franchise taxes), and all liabilities with respect thereto, imposed by any jurisdiction on account of amounts payable or paid pursuant to Section 3.01.

"GAAP" means generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the Closing Date.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government,

and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"Guaranty Equity Sum" has the meaning specified in Section 6.13.

"Guaranty Equity Threshold" has the meaning specified in Section 6.13.

"Guaranty Obligation" has the meaning specified in the definition of "Contingent Obligation."

"Indebtedness" of any Person means, without duplication, (a) all indebtedness for borrowed money; (b) all obligations issued, undertaken or assumed as the deferred purchase price of property or services (other than trade payables entered into in the ordinary course of business on ordinary terms); (c) all non-contingent reimbursement or payment obligations with respect to Surety Instruments; (d) all obligations evidenced by notes, bonds, debentures or similar instruments, including obligations so evidenced incurred in connection with the acquisition of property, assets or businesses; (e) all indebtedness created or arising under any conditional sale or other title retention agreement, or incurred as financing, in either case with respect to property acquired by the Person (even though the rights and remedies of the seller or bank under such agreement in the event of default are limited to repossession or sale of such property); (f) all obligations with respect to capital leases; (g) all indebtedness referred to in clauses (a) through (f) above secured by (or for which the holder of such Indebtedness has an

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existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including accounts and contracts rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness; provided that the amount of such indebtedness shall equal the lesser of (i) the amount secured, and (ii) the fair market value of the collateral secured; and (h) all Guaranty Obligations in respect of indebtedness or obligations of others of the kinds referred to in clauses (a) through (g) above.

"Indemnified Liabilities" has the meaning specified in Section 9.05.

"Indemnified Person" has the meaning specified in Section 9.05.

"Independent Auditor" has the meaning specified in subsection 6.01(a).

"Insolvency Proceeding" means, with respect to any Person, (a) any case, action or proceeding with respect to such Person before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, receivership, dissolution, winding-up or relief of debtors, or (b) any general assignment for the benefit of creditors, composition, marshalling of assets for creditors, or other, similar arrangement in respect of its creditors generally or any substantial portion of its creditors; undertaken under U.S. Federal, state or foreign law, including the Bankruptcy Code.

"Interest Coverage Ratio" means for any Person as of the end of any fiscal quarter, the ratio of (i) the EBIT of such Person for the prior four consecutive fiscal quarters, to (ii) the Interest Expense of such Person for the prior four consecutive fiscal quarters.

"Interest Expense" shall mean for anytwelve month period the aggregate amount of interest expense of the Company and its Subsidiaries for the last twelve months as determined on a consolidated basis in accordance with GAAP.

"Interest Payment Date" means, as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and, as to any Base Rate Loan, the last Business Day of each calendar quarter and each date such Loan is converted into another Type of Loan, provided, however, that if any Interest Period for an Offshore Rate Loan is greater than three months, the date that is three months after the beginning of such Interest Period and after each Interest Payment Date thereafter is also an Interest Payment Date.

"Interest Period" means, as to any Offshore Rate Loan, the period commencing on the Borrowing Date of such Loan or on the Conversion/Continuation Date on which the Loan is converted into or continued as an Offshore Rate Loan, and ending on the date one, two, three or six months thereafter (and any other period that is 12 months or less and is consented to by the Bank in the given instance) as selected by the Company in its Notice of Borrowing or Notice of Conversion/Continuation; provided that:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, that Interest Period shall be extended to the following Business Day unless, in the case of an Offshore Rate Loan, the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the preceding Business Day;

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(ii) any Interest Period pertaining to an Offshore Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period for any Revolving Loan shall extend beyond the Revolving Termination Date.

"IRS" means the Internal Revenue Service, and any Governmental Authority succeeding to any of its principal functions under the Code.

"Lending Office" means, the office or offices of the Bank specified by the Bank from time to time as its "Lending Office" with respect to this Agreement.

"Leverage Ratio" as to any Person at the end of any fiscal quarter means the ratio of (i) Funded Debt of such Person on such date, to (ii) EBITDA of such Person for the four consecutive fiscal quarters then ending, all as determined on a Consolidated basis.

"Lien" means any security interest, mortgage, deed of trust, pledge, hypothecation, assignment, charge or deposit arrangement, encumbrance, lien (statutory or other) or preferential arrangement of any kind or nature whatsoever in respect of any property (including those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a capital lease, any financing lease having substantially the same economic effect as any of the foregoing, or the filing of

any financing statement naming the owner of the asset to which such lien relates as debtor, under the Uniform Commercial Code or any comparable law) and any contingent or other agreement to provide any of the foregoing, but not including the interest of a lessor under an operating lease.

"Loan" means an extension of credit by the Bank to the Company under ARTICLE II in the form of a Revolving Loan.

"Loan Documents" means this Agreement, and all other documents delivered by or on behalf of the Company to the Bank in connection herewith.

"Margin Stock" means "margin stock" as such term is defined in Regulation T, U or X of the FRB.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, condition (financial or otherwise) or prospects of the Company or the Company and its Subsidiaries taken as a whole; (b) a material impairment of the ability of the Company or any Subsidiary to perform under any Loan Document and to avoid any Event of Default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the Company of any Loan Document.

"Material Subsidiary" means any Subsidiary Guarantor and any other Subsidiary which, as reflected on the latest financial statements delivered to the Bank under Section 6.01(a) or Section 6.01(b) hereof, has (i) total assets in excess of \$750,000, or (ii) EBIT during the prior

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four consecutive fiscal quarters of more than \$250,000.

"Multiemployer Plan" means a "multiemployer plan", within the meaning of Section 4001(a)(3) of ERISA, to which the Company or any ERISA Affiliate makes, is making, or is obligated to make contributions or, during the preceding three calendar years, has made, or been obligated to make, contributions.

"Net Income" of the Company for any period shall mean the Company's consolidated net income (or net loss) for such period determined in accordance with GAAP.

"Net Worth" of the Company at any time shall mean all amounts which, in accordance with GAAP, would be included under Shareholder's Equity on a consolidated balance sheet of the Company and its Subsidiaries (excluding foreign currency translation adjustments).

"Notice of Borrowing" means a notice in substantially the form of Exhibit A.

"Notice of Conversion/Continuation" means a notice in substantially the form of Exhibit B.

"Obligations" means all advances, debts, liabilities, obligations, covenants and duties arising under any Loan Document owing by the Company to the Bank, or any Indemnified Person, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising.

"Offshore Rate" means, for any Interest Period, with respect to Offshore Rate Loans comprising part of the same Borrowing, the rate of interest per annum (rounded upward to the next 1/16th of 1%) at which deposits for such Interest Period and in an amount approximately equal to the amount of the Offshore Rate Loan during such Interest Period would be offered by the London office of the Bank to major banks in the London eurodollar market at or about 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"Offshore Rate Loan" means a Loan that bears interest based on the Offshore Rate.

"Offshore Rate Margin" means the percentage determined in accordance with Section 2.08(b).

"Organization Documents" means, for any corporation or limited liability company, the certificate or articles of incorporation, or certificate of formation, the bylaws, operating agreement, any certificate of determination or instrument relating to the rights of preferred shareholders of such corporation, any shareholder rights agreement, and all applicable resolutions of the board of directors (or any committee thereof) of such corporation or limited liability company.

"Other Taxes" means any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, this Agreement or any other Loan Documents (excluding in all events income taxes and franchise taxes based on income).

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"Participant" has the meaning specified in subsection 9.08(b).

"PBGC" means the Pension Benefit Guaranty Corporation, or any Governmental Authority succeeding to any of its principal functions under ERISA.

"Pension Plan" means a pension plan (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA which the Company sponsors, maintains, or to which it makes, is making, or is obligated to make contributions, or in the case of a multiple employer plan (as described in Section 4064(a) of ERISA) has made contributions at any time during the immediately preceding five (5) plan years.

"Permitted Liens" has the meaning specified in Section 7.01.

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or Governmental Authority.

"Plan" means an employee benefit plan (as defined in Section 3(3) of ERISA) which the Company sponsors or maintains or to which the Company makes, is making, or is obligated to make contributions and includes any Pension Plan.

"Relationship Guarantee Program" means the Company's practice of issuing checks in amounts up to \$100,000 to certain customers, payable at the customer's discretion, as a measure of the Company's commitment to customer satisfaction.

"Reportable Event" means, any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"Required Guarantor" means (i) any Subsidiary owning trademarks or other intangibles material to the conduct of the business of Company and its Subsidiaries, (ii) any Domestic Subsidiary with (x) Shareholder's Equity greater than \$1,000,000 or (y) EBIT for any four consecutive fiscal quarters greater than \$1,000,000

"Requirement of Law" means, as to any Person, any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon the Person or any of its property or to which the Person or any of its property is subject.

"Responsible Officer" means the chief executive officer, president or chief financial officer of the Company; or, with respect to compliance with financial covenants, the chief financial officer or the treasurer of the Company.

"Revolving Loan" has the meaning specified in Section 2.01, and may be a Base Rate Loan or an Offshore Rate Loan (each, a "Type" of Revolving Loan).

"Revolving Loan Note" has the meaning specified in Section 2.02.

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"Revolving Termination Date" means the earlier to occur of:

(a) November 30, 2001; provided, however, that if such date is not a Business Day, the Termination Date shall be the next succeeding Business Day (or, if such next succeeding Business Day falls in the next calendar month, the immediately preceding Business Day); and

(b) the date on which the Commitments terminate in accordance with Section 2.05 or Section 8.02 of this Agreement.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"Shareholder's Equity" of any Person has the meaning assigned to that term by GAAP.

"Subordinated Debt" means any unsecured Indebtedness of the Company (a) no part of the principal of which is stated to be payable or is required to be paid (whether by way of mandatory sinking fund, mandatory redemption, mandatory prepayment or otherwise) prior to the Revolving Termination Date, and the payment of the principal of and interest on which and other obligations of the Company in respect thereof are subordinated to the prior payment in full of the principal of and interest (including post-petition interest) on the Notes and all other obligations and liabilities of the Company to the Bank hereunder on terms and conditions first approved in writing by the Bank and (b) otherwise containing terms, covenants and conditions satisfactory in form and substance to the Bank, as evidenced by its prior written approval thereof.



"Subsidiary" of a Person means any corporation, association, partnership, limited liability company, joint venture or other business entity of which more than 50% of the voting stock, membership interests or other equity interests (in the case of Persons other than corporations), is owned or controlled directly or indirectly by the Person, or one or more of the Subsidiaries of the Person, or a combination thereof. Unless the context otherwise clearly requires, references herein to a "Subsidiary" refer to a Subsidiary of the Company.

"Subsidiary Guarantor" means any Subsidiary that has executed and delivered a Subsidiary Guaranty.

"Subsidiary Guaranty" means the guaranty of obligations of the Company in the form and substance satisfactory to the Bank executed at any time by Subsidiary Guarantors.

"Surety Instruments" means all letters of credit (including standby and commercial), banker's acceptances, bank guaranties, shipside bonds, surety bonds and similar instruments.

"Swap Contract" means any agreement, whether or not in writing, that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swaption, currency option or any other, similar transaction (including any option to enter into any of the foregoing) or any combination of the foregoing, and, unless the context otherwise clearly requires, any master agreement relating to or governing any or all of the foregoing.

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"Swap Termination Value" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a) the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined by the Company based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include the Bank).

"Taxes" means any and all present or future taxes, levies, assessments, imposts, duties, deductions, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of the Bank taxes imposed on or measured by its net income by the jurisdictions (or any political subdivision thereof) under the laws of which the Bank is organized or maintains a lending office.

"Type" has the meaning specified in the definition of "Revolving Loan."

"Unfunded Pension Liability" means the excess of all Plans' aggregate benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of those Plans' assets, determined in accordance with the assumptions used for funding such Pension Plans pursuant to Section 412 of the Code for the applicable plan year.



"United States" and "U.S." each means the United States of America.

"Wholly-Owned Subsidiary" means any corporation in which (other than directors' qualifying shares required by law) 100% of the capital stock of each class having ordinary voting power, and 100% of the capital stock of every other class, in each case, at the time as of which any determination is being made, is owned, beneficially and of record, by the Company, or by one or more of the other Wholly-Owned Subsidiaries, or both.

#### 1.02. Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) (i) The term "documents" includes any and all instruments, documents, agreements, certificates, indentures, notices and other writings, however evidenced.

(ii) The term "including" is not limiting and means "including without limitation."

(iii) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding", and the word "through" means "to and including."

(c) Unless otherwise expressly provided herein, (i) references to agreements (including this Agreement) and other contractual instruments shall be deemed to include

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all subsequent amendments and other modifications thereto, but only to the extent such amendments and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation are to be construed as including all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting the statute or regulation.

(d) The captions and headings of this Agreement are for convenience of reference only and shall not affect the interpretation of this Agreement.

#### 1.03. Accounting Principles.

(a) Unless the context otherwise clearly requires, all accounting terms not expressly defined herein shall be construed, and all financial computations required under this Agreement shall be made, in accordance with GAAP, consistently applied.

(b) References herein to "fiscal year" and "fiscal quarter" refer to such fiscal periods of the Company.

### ARTICLE II - THE CREDIT

#### 2.01. Amounts and Terms of Commitment.

The Bank agrees, on the terms and conditions set forth herein, to make loans to the Company (each such loan, a "Revolving Loan") from time to time on any Business Day during the period from the Closing Date to the Revolving Termination Date, in an aggregate amount not to exceed at any time outstanding, \$15,000,000 (such amount, as the same may be reduced under Section 2.05, the "Commitment"); provided, however, that, after giving effect to any Borrowing of Revolving Loans, the Effective Amount of all outstanding Revolving Loans, shall not at any time exceed the Commitment. Within the limits of the Commitment, and subject to the other terms and conditions hereof, the Company may borrow under this Section 2.01, prepay under Section 2.06 and reborrow under this Section 2.01.

#### 2.02. Revolving Loan Note.

The Loans made by the Bank shall be evidenced by a single note in the form of Exhibit C (the "Revolving Loan Note") duly executed by the Company. The Bank shall note on the schedules annexed to the Revolving Loan Note the date, amount and maturity of each Loan made by it and the amount of each payment of principal made by the Company with respect thereto. The Bank is irrevocably authorized by the Company to make such notation on the Revolving Loan Note and such records shall be conclusive absent manifest or proven error; provided, however, that the failure of the Bank to make, or an error in making, a notation thereon with respect to any Loan shall not limit or otherwise affect the obligations of the Company hereunder or under the Revolving Loan Note to the Bank.

#### 2.03. Procedure for Borrowing.

(a) Each Borrowing of Revolving Loans shall be made upon the Company's irrevocable written notice delivered to the Bank in the form of a Notice of Borrowing

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(which notice must be received by the Bank prior to 12:00 noon New York City time) (i) three (3) Business Days prior to the requested Borrowing Date, in the case of Offshore Rate Loans and (ii) on the requested Borrowing Date, in the case of Base Rate Loans, specifying:

(i) the amount of the Borrowing, which shall be (x) with respect to Offshore Rate Loans in an aggregate minimum amount of \$500,000 or any multiple of \$100,000 in excess thereof, (y) with respect to Base Rate Loans in an aggregate principal amount of \$100,000 or a multiple of \$100,000 in excess thereof;

(ii) the requested Borrowing Date, which shall be a Business Day;

(iii) the Type of Loan; and

(iv) the duration of the Interest Period, if any, applicable to such Loans included in such notice. If the Notice of Borrowing fails to specify the duration of the Interest Period for any Borrowing comprised of Offshore Rate Loans, such Interest Period shall be three months;

provided, however, that with respect to any Borrowing to be made on the Closing Date, the Notice of Borrowing shall be delivered to the Bank not later than 12:00 noon (New York City time) one Business Day before the Closing Date and such Borrowing will consist of Base Rate Loans only.

(b) Not later than 1:00 p.m. New York City time on the Borrowing Date requested by the Company the proceeds of all Loans will be made available to the Company by the Bank by crediting the account of the Company on the books of the Bank with the aggregate of the amounts made available by the Bank.

(c) After giving effect to any Borrowing, unless the Bank shall otherwise consent, there may not be more than ten different Interest Periods in effect.

#### 2.04. Conversion and Continuation Elections.

(a) The Company may, upon irrevocable written notice to the Bank in accordance with subsection 2.04(b):

(i) elect, as of any Business Day, in the case of Base Rate Loans to convert any such Loans (or any part thereof in an amount not less than \$500,000, or that is in an integral multiple of \$100,000 in excess thereof) into Offshore Rate Loans; or

(ii) elect, as of the last day of the applicable Interest Period, to convert any Offshore Rate Loans having Interest Periods expiring on such date (or any part thereof in an amount not less than \$500,000, or that is an integral multiple of \$100,000 in excess thereof) into Base Rate Loans; or

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(iii) elect as of the last day of the applicable Interest Period, to continue Offshore Rate Loans having Interest Periods expiring on such day (or any part thereof in an amount not less than \$500,000, or that is in an integral multiple of \$100,000 in excess thereof);

provided that, if at any time the aggregate amount of Offshore Rate Loans in respect of any Borrowing is reduced, by payment, prepayment, or conversion of part thereof to be less than \$500,000, such Offshore Rate Loans shall automatically convert into Base Rate Loans, and on and after such date the right of the Company to continue such Loans as, and convert such Loans into, Offshore Rate Loans shall terminate.

(b) The Company shall deliver a Notice of Conversion/Continuation to be received by the Bank not later than 12:00 noon (New York City time) at least (i) three Business Days in advance of the Conversion/Continuation Date, if the Loans are to be converted into or continued as Offshore Rate Loans and (ii) on the Conversion/Continuation Date, if the Loans are to be converted into Base Rate Loans, specifying:

(A) the proposed Conversion/Continuation Date, which shall be a Business Day;

(B) the aggregate amount of Loans to be converted or

continued;

(C) the Type of Loans resulting from the proposed conversion or continuation; and

(D) in the case of conversions into Offshore Rate Loans, the duration of the requested Interest Period.

(c) If upon the expiration of any Interest Period applicable to Offshore Rate Loans, the Company has failed to select timely a new Interest Period to be applicable to such Offshore Rate Loans or if any Default or Event of Default then exists, the Company shall be deemed to have elected to convert such Offshore Rate Loans into Base Rate Loans effective as of the expiration date of such Interest Period.

(d) Unless the Bank otherwise consents, during the existence of a Default or Event of Default, the Company may not elect to have a Loan converted into or continued as an Offshore Rate Loan.

(e) After giving effect to any conversion or continuation of Loans, unless the Bank shall otherwise consent, there may not be more than ten different Interest Periods in effect.

#### 2.05. Voluntary Termination or Reduction of Commitment.

The Company may, upon not less than four (4) Business Days' prior notice to the Bank, terminate the Commitment, or, at any time or from time to time, permanently reduce the Commitment by an aggregate minimum amount of \$5,000,000 or any multiple of \$1,000,000 in

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excess thereof; unless, after giving effect thereto and to any prepayments of Loans made on or before the effective date thereof, the Effective Amount of all Revolving Loans would exceed the amount of the combined Commitment then in effect. Once reduced in accordance with this Section, the Commitment may not be increased. All accrued commitment fees to, but not including, the effective date of any reduction or termination of Commitment, shall be paid on the effective date of such reduction or termination.

#### 2.06. Optional Prepayments.

The Company may, at any time or from time to time, upon not less than three (3) Business Days' irrevocable notice to the Bank in the case of Offshore Rate Loans, or upon irrevocable notice given not later than 12:00 noon (New York City time) of the date of prepayment in the case of Base Rate Loans, ratably prepay Loans in whole or in part, in minimum amounts of \$500,000 or any multiple of \$100,000 in excess thereof in the case of Offshore Rate Loans and in minimum amounts of \$100,000 or any multiple of \$100,000 in excess thereof in the case of Base Rate Loans. Such notice of prepayment shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. If such notice is given by the Company, the Company shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein, together with accrued interest to each such date on the amount prepaid and, if such prepayment of an Offshore Rate Loan is made on a day that is not the last day of the applicable Interest Period, any amounts required pursuant to Section 3.04.

2.07. Repayment.

The Company shall repay to the Bank on the Revolving Termination Date the aggregate amount of all Revolving Loans outstanding on such date.

2.08. Interest.

(a) Each Revolving Loan shall bear interest on the outstanding principal amount thereof from the applicable Borrowing Date at a rate per annum equal to the Offshore Rate plus the Offshore Rate Margin or the Base Rate plus the Base Rate Margin, as the case may be (and subject to the Company's right to convert to other Types of Loans under Section 2.04).

(b) The Base Rate Margin and the Offshore Rate Margin shall be determined on each Borrowing Date using the pricing grid set forth below and determined on the basis of the Leverage Ratio as set forth in the most recent Compliance Certificate, and shall be effective from and including the date the Bank receives such Compliance Certificate to but excluding the date on which the Bank receives the next Compliance Certificate; provided, however, that if the Bank does not receive a Compliance Certificate by the date required by Section 6.02(a), the Commitment Fee Rate, the Base Rate Margin and the Offshore Rate Margin shall, effective as of such date, be the highest Commitment Fee Rate, Base Rate Margin and Offshore Rate Margin to but excluding the date the Bank receives such Compliance Certificate. Subject to the foregoing proviso, the initial Commitment Fee Rate, Base Rate Margin and Offshore Rate Margin shall be 0.25%,

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0.00% and 0.50% respectively.

<TABLE>  
<CAPTION>

Leverage Ratio	Offshore Rate Margin	Base Rate Margin	Commitment Fee Rate
<S> Less than 1.0	<C> 0.50%	<C> 0.00%	<C> 0.25%
Less than 1.75 and greater than or equal to 1.00	1.00%	0.00%	0.3125%
Greater than or equal to 1.75	1.50%	0.00%	0.375%

</TABLE>

(c) Interest on each Revolving Loan shall be paid in arrears on

each Interest Payment Date. Interest shall also be paid on the date of any prepayment of Offshore Rate Loans under Section 2.06 for the portion of the Loans so prepaid and upon payment (including prepayment) in full thereof and, during the existence of any Event of Default, interest shall be paid on demand of the Bank.

(d) Notwithstanding subsection (a) of this Section, if any amount of principal of or interest on any Loan, or any other amount payable hereunder or under any other Loan Document is not paid in full when due (whether at stated maturity, by acceleration, demand or otherwise), the Company agrees to pay interest on such unpaid principal or other amount, from the date such amount becomes due until the date such amount is paid in full, and after as well as before any entry of judgment thereon to the extent permitted by law, payable on demand, at a fluctuating rate per annum equal to the Base Rate plus 2%.

(e) Anything herein to the contrary notwithstanding, the obligations of the Company to the Bank hereunder shall be subject to the limitation that payments of interest shall not be required for any period for which interest is computed hereunder, to the extent (but only to the extent) that contracting for or receiving such payment by the Bank would be contrary to the provisions of any law applicable to the Bank limiting the highest rate of interest that may be lawfully contracted for, charged or received by the Bank, and in such event the Company shall pay the Bank interest at the highest rate permitted by applicable law.

#### 2.09. Fees.

(a) The Company shall pay a facility fee to the Bank in the amount of \$20,000, payable as of the Closing Date.

(b) The Company shall pay to the Bank a commitment fee on the average daily unused portion of the Commitment, computed on a quarterly basis in arrears on the last Business Day of each calendar quarter based upon the daily utilization for that quarter as calculated by the Bank using the then applicable Commitment Fee Rate. For purposes of calculating utilization under this subsection, the Commitments shall be

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deemed used to the extent of the Effective Amount of Revolving Loans then outstanding. Such commitment fee shall accrue from the Closing Date to the Revolving Termination Date and shall be due and payable quarterly in arrears on the last Business Day of each calendar quarter commencing on December 31, 1998 through the Revolving Termination Date, with the final payment to be made on the Revolving Termination Date; provided that, in connection with any reduction or termination of Commitments under Section 2.05, the accrued commitment fee calculated for the period ending on such date shall also be paid on the date of such reduction or termination, with the following quarterly payment being calculated on the basis of the period from such reduction or termination date to such quarterly payment date. The commitment fees provided in this subsection shall accrue at all times after the above-mentioned commencement date, including at any time during which one or more conditions in ARTICLE IV are not met.

## 2.10. Computation of Fees and Interest.

(a) All computations of interest for Base Rate Loans when the Base Rate is determined by the Bank's "reference rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more interest being paid than if computed on the basis of a 365-day year). Interest and fees shall accrue during each period during which interest or such fees are computed from the first day thereof to the last day thereof.

(b) Each determination of an interest rate by the Bank shall be conclusive and binding on the Company in the absence of manifest error. The Bank will, at the request of the Company, deliver to the Company or the Bank, as the case may be, a statement showing the quotations used by the Bank in determining any interest rate and the resulting interest rate.

## 2.11. Payments.

(a) All payments to be made by the Company shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by the Company shall be made to the Bank in Dollars and in immediately available funds, no later than 12:00 noon (New York City time) on the date specified herein. Any payment received by the Bank later than 12:00 noon (New York City time) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

(b) Subject to the provisions set forth in the definition of "Interest Period" herein, whenever any payment is due on a day other than a Business Day, such payment shall be made on the following Business Day, and such extension of time shall in such case be included in the computation of interest or fees, as the case may be.

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## ARTICLE III - TAXES, YIELD PROTECTION AND ILLEGALITY

### 3.01. Taxes.

(a) Any and all payments by the Company to the Bank under this Agreement and any other Loan Document shall be made free and clear of, and without deduction or withholding for, any Taxes. In addition, the Company shall pay all Other Taxes.

(b) If the Company shall be required by law to deduct or withhold any Taxes, Other Taxes or Further Taxes from or in respect of any sum payable hereunder to the Bank, then:

(i) the sum payable shall be increased as necessary so that, after making all required deductions and withholdings (including deductions and withholdings applicable to additional sums payable under this Section), the Bank receives and retains an amount equal to the sum it would have received and retained had no such deductions or withholdings been made;

(ii) the Company shall make such deductions and withholdings;

(iii) the Company shall pay the full amount deducted or withheld to the relevant taxing authority or other authority in accordance with applicable law; and

(iv) the Company shall also pay to the Bank, at the time interest is paid, Further Taxes in the amount that the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such Taxes, Other Taxes or Further Taxes had not been imposed.

(c) The Company agrees to indemnify and hold harmless the Bank for the full amount of i) Taxes, ii) Other Taxes, and iii) Further Taxes in the amount that the Bank specifies as necessary to preserve the after-tax yield the Bank would have received if such Taxes, Other Taxes or Further Taxes had not been imposed, and any liability (including penalties, interest, additions to tax and expenses caused solely by the Company's failure to pay such Taxes, Other Taxes and Further Taxes as requested by the Bank) arising therefrom or with respect thereto. Payment under this indemnification shall be made within 30 days after the date the Bank makes written demand therefor.

(d) Within 30 days after the date of any payment by the Company of Taxes, Other Taxes or Further Taxes, the Company shall furnish to the Bank the original or a certified copy of a receipt evidencing payment thereof, or other evidence of payment satisfactory to the Bank.

(e) If the Company is required to pay any amount to the Bank pursuant to subsection (b) or (c) of this Section, then the Bank shall use reasonable efforts (consistent with legal and regulatory restrictions) to change the jurisdiction of its Lending Office so as to eliminate any such additional payment by the Company which may thereafter accrue, if such change in the sole judgment of the Bank is not otherwise disadvantageous to the Bank.

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### 3.02. Illegality.

(a) If the Bank determines that the introduction of any Requirement of Law, or any change in any Requirement of Law, or in the interpretation or administration of any Requirement of Law, has made it unlawful, or that any central bank or other Governmental Authority has asserted that it is unlawful, for the Bank or its applicable Lending Office to make Offshore Rate Loans, then, on notice thereof by the Bank to the Company, any obligation of the Bank to make Offshore Rate Loans shall be suspended until the Bank notifies the Company that the circumstances giving rise to such determination no longer exist.

(b) If the Bank determines that it is unlawful to maintain any Offshore Rate Loan, the Company shall, upon its receipt of notice of such fact and demand from the Bank, prepay in full such Offshore Rate Loans of the Bank then outstanding, together with interest accrued thereon and amounts required under Section 3.04, either on the last day



of the Interest Period thereof, if the Bank may lawfully continue to maintain such Offshore Rate Loans to such day, or immediately, if the Bank may not lawfully continue to maintain such Offshore Rate Loan. If the Company is required to so prepay any Offshore Rate Loan, then concurrently with such prepayment, the Company may borrow from the Bank, in the amount of such repayment, a Base Rate Loan or prepay such Offshore Rate Loan from funds of the Company.

(c) If the obligation of the Bank to make or maintain Offshore Rate Loans has been so terminated or suspended, the Company may elect, by giving notice to the Bank that all Loans which would otherwise be made by the Bank as Offshore Rate Loans shall be instead Base Rate Loans.

(d) Before giving any notice to the Company under this Section, the Bank shall designate a different Lending Office with respect to its Offshore Rate Loans or assign the Loan or portion thereof to a Bank Affiliate, if such designation or assignment will avoid the need for giving such notice or making such demand and will not, in the judgment of the Bank, be illegal or otherwise disadvantageous to the Bank or, in the case of an assignment, to the Bank and its Affiliates taken as a whole.

### 3.03. Increased Costs and Reduction of Return.

(a) If the Bank reasonably determines that, due to either (i) the introduction of or any change (other than any change by way of imposition of or increase in reserve requirements included in the calculation of the Offshore Rate) in or to the interpretation of any law or regulation or (ii) the compliance by the Bank with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law), there shall be any increase in the cost to the Bank of agreeing to make or making, funding or maintaining any Offshore Rate Loans, then the Company shall either (x) be liable for, and shall from time to time, 15 days after demand, pay to the Bank for the account of the Bank, additional amounts as are sufficient to compensate the Bank for such increased costs or (y) terminate and prepay any affected Offshore Rate Loan.

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(b) If the Bank shall have determined that (i) the introduction of any Capital Adequacy Regulation, (ii) any change in any Capital Adequacy Regulation, (iii) any change in the interpretation or administration of any Capital Adequacy Regulation by any central bank or other Governmental Authority charged with the interpretation or administration thereof, or (iv) compliance by the Bank (or its Lending Office) with any Capital Adequacy Regulation, affects or would affect the amount of capital required or expected to be maintained by the Bank or any corporation controlling the Bank and (taking into consideration the Bank's or such corporation's policies with respect to capital adequacy and the Bank's desired return on capital) determines that the amount of such capital is increased as a consequence of its Commitment, loans, credits or obligations under this Agreement, then, upon demand of the Bank to the Company, the Company shall pay to the Bank, from time to time as specified by the Bank, additional amounts sufficient to compensate the Bank for such increase.

### 3.04. Funding Losses.

The Company shall reimburse the Bank and hold the Bank harmless from any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain outstanding Offshore Rate Loans or from fees payable to terminate the deposits from which such funds were obtained which the Bank may sustain or incur as a consequence of:

(a) the failure of the Company to make on a timely basis any payment of principal of any Offshore Rate Loan;

(b) the failure of the Company to borrow, continue or convert a Loan after the Company has given (or is deemed to have given) a Notice of Borrowing or a Notice of Conversion/ Continuation;

(c) the failure of the Company to make any prepayment in accordance with any notice delivered under Section 2.06; or

(d) the prepayment or other payment (including, without limitation, after acceleration thereof or under Section 3.02(b)) of an Offshore Rate Loan on a day that is not the last day of the relevant Interest Period.

For purposes of calculating amounts payable by the Company to the Bank under this Section and under subsection 3.03(a), each Offshore Rate Loan made by the Bank (and each related reserve, special deposit or similar requirement) shall be conclusively deemed to have been funded at the rate of interest for deposits used in determining the Offshore Rate for such Offshore Rate Loan by a matching deposit or other borrowing in the interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Offshore Rate Loan is in fact so funded.

### 3.05. Inability to Determine Rates.

If the Bank determines that for any reason adequate and reasonable means do not exist for determining the Offshore Rate for any requested Interest Period with respect to a proposed Offshore Rate Loan, or that the Offshore Rate applicable pursuant to subsection 2.08(a) for any

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requested Interest Period with respect to a proposed Offshore Rate Loan does not adequately and fairly reflect the cost to the Bank of funding such Loan, the Bank will promptly so notify the Company. Thereafter, the obligation of the Bank to make or maintain Offshore Rate Loans hereunder shall be suspended until the Bank revokes such notice in writing. Upon receipt of such notice, the Company may revoke any Notice of Borrowing or Notice of Conversion/Continuation then submitted by it without liability under Section 3.04. If the Company does not revoke such Notice, the Bank shall make, convert or continue the Loans, as proposed by the Company, in the amount specified in the applicable notice submitted by the Company, but such Loans shall be made, converted or continued as Base Rate Loans instead of Offshore Rate Loans.

### 3.06. Reserves on Offshore Rate Loans.

In the event that the Bank is required under regulations of the FRB to

maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), the Company shall pay to the Bank, as long as the Bank shall be required, additional costs on the unpaid principal amount of each Offshore Rate Loan equal to the actual costs of such reserves allocated to such Loan by the Bank (as determined by the Bank in good faith, which determination shall be conclusive absent manifest or proven error), payable on each date on which interest is payable on such Loan, provided the Company shall have received at least 15 days' prior written notice of such additional interest from the Bank. If the Bank fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be payable 15 days from receipt of such notice.

3.07. Certificates of the Bank.

If the Bank claims reimbursement or compensation under this ARTICLE III, it shall deliver to the Company a certificate setting forth in reasonable detail the amount payable to the Bank hereunder, the reason for and the computation of such reimbursement or compensation, and such certificate shall be conclusive and binding on the Company in the absence of manifest or proven error.

3.08. Survival.

The agreements and obligations of the Company in this ARTICLE III shall survive the payment of all other Obligations.

ARTICLE IV - CONDITIONS PRECEDENT

4.01. Conditions of Initial Credit Extensions.

The obligation of the Bank to make its initial Credit Extension hereunder is subject to the condition that the Bank shall have received on or before the Closing Date all of the following, in form and substance satisfactory to the Bank:

- (a) This Agreement executed by each party thereto;
- (b) A photocopy of the bylaws (including all amendments thereto) of the

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Company, certified by the Secretary of the Company; and the Company's certificate of incorporation (and all amendments thereto), certified by the Department of Treasury of New Jersey;

(c) A certificate, dated the Effective Date, executed by the Secretary of the Company, certifying (with appropriate organizational resolutions attached thereto): (A) that all action required to be taken by the Company in connection with the authorization, execution, delivery and performance of this Agreement and the transactions contemplated hereby and thereby has been taken and (B) the names and true signatures of its respective officers authorized to execute, deliver and perform, as applicable, this Agreement, and all other documents and notices to be delivered by it hereunder;

(d) A good standing certificate and tax good standing for the Company from the Department of Treasury of New Jersey and the Secretary of State (or similar applicable Governmental Authority) of each state where the Company is qualified to do business as a foreign corporation as of a recent date;

(e) A photocopy of the bylaws (including all amendments thereto) of each Subsidiary Guarantor, certified by the Secretary of such Subsidiary Guarantor; and such Subsidiary Guarantor's certificate of incorporation (and all amendments thereto), certified by the applicable Governmental Authority of the state where such Subsidiary Guarantor was organized;

(f) A certificate, dated the Effective Date, executed by the Secretary of each Subsidiary Guarantor, certifying (with appropriate organizational resolutions attached thereto): (A) that all action required to be taken by such Subsidiary Guarantor in connection with the authorization, execution, delivery and performance of the Subsidiary Guaranty and the transactions contemplated thereby has been taken and (B) the names and true signatures of its respective officers authorized to execute, deliver and perform, as applicable, the Subsidiary Guaranty, and all other documents and notices to be delivered by it thereunder;

(g) A good standing certificate and tax good standing for each Subsidiary Guarantor from the Secretary of State (or similar applicable Governmental Authority) of each state where such Subsidiary Guarantor is organized and is qualified to do business as a foreign corporation as of a recent date;

(h) A Subsidiary Guaranty duly executed by each Required Guarantor;

(i) An opinion of Pitney, Hardin, Kipp & Szuch, counsel to the Company and addressed to the Bank, substantially in the form of Exhibit E;

(j) Evidence of payment by the Company of all accrued and unpaid reasonable fees, costs and expenses to the extent then due and payable on the Closing Date, together with reasonable Attorney Costs (related specifically to this Agreement, the Loan Documents and the transactions contemplated therein) of the Bank to the extent invoiced prior to or on the Closing Date, plus such additional amounts of reasonable Attorney Costs as shall constitute the Bank's reasonable estimate of Attorney Costs

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incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude final settling of accounts between the Company and the Bank); including any such costs, fees and expenses arising under or referenced in Sections 2.09;

(k) A certificate signed by a Responsible Officer of the Company, dated as of the Closing Date, stating that: (A) the representations and

warranties contained in ARTICLE V are true and correct on and as of such date, as though made on and as of such date; (B) no Default or Event of Default exists or would result from the Credit Extension, and (C) there has occurred since June 30, 1998 no event or circumstance that has resulted or could reasonably be expected to result in a Material Adverse Effect; and

(l) Evidence of such other approvals, opinions, documents or materials as the Bank may reasonably request.

#### 4.02. Conditions to All Credit Extensions.

The obligation of the Bank to make any Revolving Loan to be made by it (including its initial Revolving Loan) is subject to the satisfaction of the following conditions precedent on the relevant Borrowing Date:

(a) The Bank shall have received a Notice of Borrowing or a Notice of Conversion/Continuation, as applicable;

(b) The representations and warranties in ARTICLE V shall be true and correct on and as of such Borrowing Date with the same effect as if made on and as of such Borrowing Date (except to the extent such representations and warranties expressly refer to an earlier date, in which case they shall be true and correct as of such earlier date); and

(c) No Default or Event of Default shall exist or shall result from such Borrowing.

Each Notice of Borrowing submitted by the Company hereunder shall constitute a representation and warranty by the Company hereunder, as of the date of each such notice and as of each Borrowing Date, as applicable, that the conditions in this Section 4.02 are satisfied.

### ARTICLE V - REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Bank that:

#### 5.01. Corporate Existence and Power.

The Company and each of its Subsidiaries:

(a) is a corporation, duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization;

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(b) has the power and authority to execute, deliver, and perform any of its obligations under the Loan Documents;

(c) has the power and authority and all governmental licenses, authorizations, consents and approvals to own its assets, carry on its business except to the extent that the failure to have such power and authority or such licenses, authorizations, consents and approvals would not reasonably be expected to have a Material Adverse Effect;

(d) is duly qualified as a foreign corporation and is licensed and

in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification or license except to the extent that the failure to be so would not reasonably be expected to have a Material Adverse Effect; and

(e) is in compliance in all material respects with all Requirements of Law except to the extent that the failure to be in compliance would not reasonably be expected to have a Material Adverse Effect.

#### 5.02. Authorization; No Contravention.

The execution, delivery and performance by the Company and the Subsidiary Guarantors of this Agreement and each other Loan Document to which such Person is party, have been duly authorized by all necessary corporate action, and do not and will not:

(a) contravene the terms of any of that Person's Organization Documents;

(b) conflict with or result in any breach or contravention of, or the creation of any Lien (other than Permitted Liens) under, any document evidencing any material Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject; or

(c) violate any Requirement of Law in any respect, the violation of which would be reasonably be expected to result in a Material Adverse Effect.

#### 5.03. Governmental Authorization.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Company or any of the Subsidiary Guarantors of this Agreement or any other Loan Document.

#### 5.04. Binding Effect.

This Agreement and each other Loan Document to which the Company or any Subsidiary Guarantor is a party constitute the legal, valid and binding obligations of the Company and such Subsidiary Guarantor to the extent it is a party thereto, enforceable against such Person in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or

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by equitable principles relating to enforceability.

#### 5.05. Litigation.

Set forth on Schedule 5.05 are, as of the Closing Date, all actions,

suits, proceedings, claims or disputes which, to the knowledge of the Company, if determined adversely to the Company or its Subsidiary, could reasonably be expected to result in liability for damages in an amount exceeding \$250,000 (the "Disclosed Claims"). Including the Disclosed Claims, there are no actions, suits, proceedings, claims or disputes pending or (to the knowledge of the Company) threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company, or its Subsidiaries or any of their respective properties:

(a) which purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(b) which, if determined adversely to the Company or its Subsidiaries, could result in liability for damages which would be reasonably expected to result in a Material Adverse Effect.

No injunction, writ, temporary restraining order or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Loan Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided.

#### 5.06. No Default.

No Default or Event of Default exists or would result from the incurring of any Obligations by the Company. As of the Closing Date, neither the Company nor any Subsidiary is in default under or with respect to any material Contractual Obligation in any respect which, individually or together with all such defaults, could reasonably be expected to have a Material Adverse Effect, or that would, if such default had occurred after the Closing Date, create an Event of Default under subsection 8.01(e).

#### 5.07. ERISA Compliance.

(a) (i) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (ii) each Plan which is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS and to the best knowledge of the Company, nothing has occurred which would cause the loss of such qualification, and (iii) the Company and each ERISA Affiliate has made all required contributions to any Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of Company, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse

Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan which has resulted or could reasonably be expected to result in a Material Adverse Effect.



(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability which could reasonably be expected to result in a Material Adverse Effect; (iii) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA) which could reasonably be expected to result in a Material Adverse Effect; (iv) neither the Company nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan which could reasonably be expected to result in a Material Adverse Effect; and (v) neither the Company nor any ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA which could reasonably be expected to result in a Material Adverse Effect.

#### 5.08. Use of Proceeds; Margin Regulations.

The proceeds of the Loans are to be used solely for the purposes set forth in and permitted by Section 6.12 and Section 7.07. Neither the Company nor any Subsidiary is generally engaged in the business of purchasing or selling Margin Stock or extending credit for the purpose of purchasing or carrying Margin Stock and none of the proceeds of the Loans shall be used for the purpose of purchasing or carrying Margin Stock.

#### 5.09. Title to Properties.

The Company and each Subsidiary have good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of their respective businesses, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. As of the Closing Date, the property of the Company and its Subsidiaries is subject to no Liens, other than Permitted Liens.

#### 5.10. Taxes.

The Company and its Subsidiaries have filed all Federal and other material tax returns and reports required to be filed, and have paid all Federal and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Company or any Subsidiary that would reasonably be expected to have a Material Adverse Effect.

#### 5.11. Financial Condition.

Since June 30, 1998, there has been no Material Adverse Effect.

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#### 5.12. Environmental Matters.



The Company owns no real property and is not aware of any existing Environmental Claims on its business, operations or leased properties, except as specifically disclosed in Schedule 5.12, which, individually or in the aggregate, are reasonably expected to result in a Material Adverse Effect.

#### 5.13. Regulated Entities.

None of the Company, any Person controlling the Company, or any Subsidiary, is an "Investment Company" within the meaning of the Investment Company Act of 1940. The Company is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, any state public utilities code, or any other Federal or state statute or regulation limiting its ability to incur Indebtedness.

#### 5.14. No Burdensome Restrictions.

To the knowledge of the Company, neither the Company nor any Subsidiary is a party to or bound by any Contractual Obligation, or subject to any restriction in any Organization Document, or any Requirement of Law, which could reasonably be expected to have a Material Adverse Effect.

#### 5.15. Copyrights, Patents, Trademarks and Licenses, Etc.

The Company or its Subsidiaries own or are licensed or otherwise have the right to use all of the patents, trademarks, service marks, trade names, copyrights, contractual franchises, authorizations and other rights that are reasonably necessary for the operation of their respective businesses, without conflict in any material respect with the rights of any other Person. To the knowledge of the Company, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Company or any Subsidiary infringes upon any rights held by any other Person in any material respect. Except as specifically disclosed in Schedule 5.05, no claim or litigation regarding any of the foregoing is pending or to the knowledge of the Company threatened, and no patent, invention, device, application, principle or any statute, law, rule, regulation, standard or code is pending or, to the knowledge of the Company, proposed, which, in either case, could reasonably be expected to have a Material Adverse Effect.

#### 5.16. Subsidiaries.

As of the Closing Date, the Company has no Subsidiaries other than those specifically disclosed in part (a) of Schedule 5.16 hereto and has no equity investments in any other corporation or entity other than those specifically disclosed in part (b) of Schedule 5.16.

#### 5.17. Insurance.

Except as specifically disclosed in Schedule 5.17, the properties of the Company and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Company pursuant to insurance policies containing amounts, deductibles and risk

#### 5.18. Full Disclosure.

None of the representations or warranties made by the Company or any Subsidiary in the Loan Documents as of the date such representations and warranties are made or deemed made, and none of the statements contained in any exhibit, report, statement or certificate furnished by or on behalf of the Company or any Subsidiary in connection with the Loan Documents (including the offering and disclosure materials delivered by or on behalf of the Company to the Bank prior to the Closing Date), contains any untrue statement of a material fact or omits any material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they are made, not misleading as of the time when made or delivered.

#### 5.19. Year 2000.

On the basis of a review and assessment of the Company's systems and equipment and inquiry made of its material suppliers, vendors and customers, the Company reasonably believes that the "Year 2000 problem" (that is, the inability of computers, as well as embedded microchips in non-computing devices, to perform properly date-sensitive functions with respect to certain dates prior to and after December 31, 1999), including costs of remediation, will not result in a material adverse change in the operations, business, properties, condition (financial or otherwise) or prospects of the Company. The Company has developed feasible contingency plans which will adequately ensure uninterrupted and unimpaired business operation in the event of failure of its own or a third party's systems or equipment due to the Year 2000 problem, including those of vendors, customers, and suppliers, as well as a general failure of or interruption in its communications and delivery infrastructure.

#### 5.20. Subsidiary Guarantees.

All Subsidiaries which meet the criteria set forth in the definition of Required Guarantor have authorized, executed and delivered a Subsidiary Guaranty in favor of the Bank.

### ARTICLE VI - AFFIRMATIVE COVENANTS

So long as the Bank shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Bank waives compliance in writing:

#### 6.01. Financial Statements.

The Company shall deliver to the Bank, in form and detail satisfactory to the Bank:

(a) as soon as available, but not later than 90 days after the end of each fiscal year, a copy of the audited consolidated balance sheet of the Company and its Subsidiaries as at the end of such year and the related audited consolidated statements of income or operations, shareholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of a nationally-recognized independent public accounting firm

("Independent Auditor") which report shall state that such consolidated financial statements present fairly the financial position for the periods indicated in conformity with GAAP applied on a basis consistent with prior years. Such opinion shall not be qualified or limited because of a restricted or limited examination by the Independent Auditor of any material portion of the Company's or any Subsidiary's records and shall be delivered to the Bank pursuant to a reliance agreement between the Bank and such Independent Auditor in form and substance satisfactory to the Bank. If the Company has any outstanding amounts under any Revolving Loans, then the Company shall concurrently deliver for the same time period an unaudited consolidating balance sheet and unaudited consolidating statements of income and operations which present fairly the financial position for certain material Subsidiaries of the Company in a manner reasonably satisfactory to the Bank; and

(b) as soon as available, but not later than 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the fiscal quarter ended September 30, 1998), a copy of the unaudited consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter and the related consolidated statements of income, shareholders' equity and cash flows for the period commencing on the first day and ending on the last day of such quarter, and certified by a Responsible Officer as fairly presenting, in accordance with GAAP (subject to year-end audit adjustments), the financial position and the results of operations of the Company and the Subsidiaries. If the Company has any outstanding amounts under any Revolving Loans, then the Company shall concurrently deliver for the same time period an unaudited consolidating balance sheet and the related unaudited consolidating statements of income, shareholders' equity and cash flows which present fairly the financial position for certain material Subsidiaries of the Company in a manner reasonably satisfactory to the Bank

#### 6.02. Certificates; Other Information.

The Company shall furnish to the Bank:

(a) concurrently with the delivery of the financial statements referred to in subsections 6.01(a) and 6.01(b), each of (x) a certificate of a Responsible Officer of the Company stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default; or if knowledge of a Default or Event of Default was obtained, then a certificate of a Responsible Officer of the Company describing the nature of such Default or Event of Default, together with a description of the remedy of same by the Company and (y) a Compliance Certificate executed by a Responsible Officer with computations demonstrating compliance with the financial covenants set forth in Section 7.12 in a form and substance satisfactory to the Bank; and

(b) promptly, such additional information regarding the business, financial or corporate affairs of the Company or any Subsidiary as the Bank may from time to time reasonably request.

## 6.03. Notices.

The Company shall promptly notify the Bank:

(a) of the occurrence of any Default or Event of Default, and of the occurrence or existence of any event or circumstance that reasonably foreseeably will become a Default or Event of Default;

(b) of any matter that has resulted or is reasonably expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of the Company or any Subsidiary, which is reasonably expected to result in a Material Adverse Effect; (ii) any material dispute, litigation, investigation, proceeding or suspension between the Company or any Subsidiary and any Governmental Authority, which is reasonably expected to result in a Material Adverse Effect; or (iii) the commencement of, or any material development in, any material litigation or proceeding affecting the Company or any Subsidiary, including pursuant to any applicable Environmental Laws, which is reasonably expected to result in a Material Adverse Effect;

(c) of the occurrence of any of the following events affecting the Company or any ERISA Affiliate (but in no event more than 30 days after such event), and deliver to the Bank a copy of any notice with respect to such event that is filed with a Governmental Authority and any notice delivered by a Governmental Authority to the Company or any ERISA Affiliate with respect to such event:

(i) an ERISA Event which could reasonably be expected to have a Material Adverse Effect;

(ii) the Unfunded Pension Liability of any Pension Plan shall increase in a manner which could reasonably be expected to have a Material Adverse Effect;

(iii) the adoption of, or the commencement of contributions to, any material Plan subject to Section 412 of the Code by the Company or any ERISA Affiliate; or

(iv) the adoption of any amendment to any material Plan subject to Section 412 of the Code, if such amendment results in a material increase in contributions or Unfunded Pension Liability; and

(d) of any material change in accounting policies or financial reporting practices by the Company or any of its consolidated Subsidiaries.

Each notice under this Section shall be accompanied by a written statement by a Responsible Officer setting forth details of the occurrence referred to therein, and stating what action the Company or any affected Subsidiary proposes to take with respect thereto and at what time. Each notice under subsection 6.03(a) shall describe with particularity any and all clauses or provisions of this Agreement or other Loan Document that have been (or reasonably foreseeably will be) breached or violated.

#### 6.04. Preservation of Existence, Etc.

The Company shall, and shall cause each Subsidiary to:

(a) preserve and maintain in full force and effect its existence and good standing under the laws of its state or jurisdiction of incorporation;

(b) preserve and maintain in full force and effect all material governmental rights, privileges, qualifications, permits, licenses and franchises necessary or desirable in the normal conduct of its business except in connection with transactions permitted by Section 7.03 and sales of assets permitted by Section 7.02, the non-preservation of which could reasonably be expected to have a Material Adverse Effect;

(c) use reasonable efforts, in the ordinary course of business, to preserve its business organization and goodwill; and

(d) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

#### 6.05. Maintenance of Property.

The Company shall maintain, and shall cause each Subsidiary to maintain, and preserve all its material property which is used or useful in its business in good working order and condition, ordinary wear and tear excepted and make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect and except as permitted by Section 7.02. The Company and each Subsidiary shall use the standard of care typical in the industry in the operation and maintenance of its facilities.

#### 6.06. Insurance.

The Company shall maintain, and shall cause each Subsidiary to maintain, with financially sound and reputable independent insurers, insurance with respect to its material properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

#### 6.07. Payment of Obligations.

The Company shall, and shall cause each Material Subsidiary to, pay and discharge as the same shall become due and payable, all their respective obligations and liabilities, including all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings and adequate reserves in accordance with GAAP are being maintained by the Company or such Subsidiary.

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#### 6.08. Compliance with Laws.

The Company shall comply, and shall cause each Subsidiary to comply, in all material respects with all Requirements of Law of any Governmental Authority having jurisdiction over it or its business (including the Federal Fair Labor Standards Act), except such as may be contested in good faith or as to which a bona fide dispute may exist and except where non-compliance is not reasonably expected to have a Material Adverse Effect.

#### 6.09. Compliance with ERISA.

The Company shall, and shall cause each of its ERISA Affiliates to: (a) maintain each Plan in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state law; (b) cause each Plan which is qualified under Section 401(a) of the Code to maintain such qualification; and (c) make all required contributions to any Plan subject to Section 412 of the Code.

#### 6.10. Inspection of Property and Books and Records.

The Company shall maintain and shall cause each Subsidiary to maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Company and such Subsidiary. The Company shall permit, and shall cause each Subsidiary to permit, representatives and independent contractors of the Bank to visit and inspect any of their respective properties, to examine their respective corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers, and independent public accountants and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Company; provided, however, when an Event of Default exists the Bank may do any of the foregoing at the expense of the Company at any time during normal business hours and without advance notice.

#### 6.11. Environmental Laws.

The Company shall, and shall cause each Subsidiary to, conduct its operations and keep and maintain its property in compliance with all Environmental Laws except where the failure to comply is not expected to have a Material Adverse Effect.

#### 6.12. Use of Proceeds.

The Company shall use the proceeds of the Loans for working capital and for financing of Acceptable Acquisitions.

#### 6.13. Subsidiary Guarantors.

The Company will cause any Domestic Subsidiary which meets the criteria set forth in the definition of Required Guarantor to execute and deliver a Subsidiary Guaranty to the Bank within ten (10) Business Days following the date of the delivery of the consolidating financial statements reflecting the fact that such Domestic Subsidiary meets such definition of Required

and each Subsidiary Guarantor as reflected in a consolidating balance sheet of the Company (such sum hereinafter referred to as the "Guaranty Equity Sum") does not exceed 70% of the Shareholder's Equity of the Company as determined on a Consolidated basis (the "Guaranty Equity Threshold"), then the Company shall cause such other Domestic Subsidiaries to execute and deliver a Subsidiary Guaranty as may be needed to cause the Guaranty Equity Sum to exceed the Guaranty Equity Threshold. If the Guaranty Equity Sum does not exceed the Guaranty Equity Threshold after the execution of a Subsidiary Guaranty by all of the Domestic Subsidiaries, then the Bank and the Company shall agree to a mutually acceptable guaranty or security arrangement, or within thirty (30) days after notice from the Bank to the Company, the Company shall cause such Foreign Subsidiaries as are necessary to meet the Guaranty Equity Threshold to execute and deliver to the Bank a Subsidiary Guaranty acceptable in form and substance to the Bank. In the event that any Foreign Subsidiary shall have Shareholder's Equity as determined on a consolidating balance sheet of the Company in excess of 20% of the Shareholder's Equity of the Company as determined on a Consolidated basis then either (i) the Company and the Bank shall agree to a mutually acceptable guaranty or security arrangement, or (ii) within thirty (30) days after notice from the Bank to the Company the Company shall cause such Foreign Subsidiary to execute and deliver to the Bank a Subsidiary Guaranty acceptable in form and substance to the Bank (for example: if Foreign Subsidiary A has Shareholder's Equity of 21% of the Shareholder's Equity of the Company and Foreign Subsidiary B has Shareholder's Equity of 21% of the Shareholder's Equity of the Company, then both Foreign Subsidiary A and Foreign Subsidiary B shall be subject to the requirements of this sentence).

#### ARTICLE VII - NEGATIVE COVENANTS

So long as the Bank shall have any Commitment hereunder, or any Loan or other Obligation shall remain unpaid or unsatisfied, unless the Bank waives compliance in writing:

##### 7.01. Limitation on Liens.

The Company shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, make, create, incur, assume or suffer to exist any Lien upon or with respect to any part of its property, whether now owned or hereafter acquired, other than the following ("Permitted Liens"):

(a) any Lien existing on property of the Company or any Subsidiary on the Closing Date and set forth in Schedule 7.01 securing Indebtedness outstanding on such date;

(b) Liens for taxes, fees, assessments or other governmental charges which are not delinquent or remain payable without penalty, or to the extent that non-payment thereof is permitted by Section 6.07; provided that no notice of lien has been filed or recorded under the Code;

(c) carriers', warehousemen's, mechanics', landlords', materialmen's, repairmen's or other similar Liens arising in the ordinary course of business which are not delinquent or remain payable without penalty or which are being contested in good faith



and by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject thereto;

(d) Liens (other than any Lien imposed by ERISA) consisting of pledges or deposits required in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation;

(e) Liens on the property of the Company or its Subsidiary securing (i) the non-delinquent performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, (ii) contingent obligations on surety and appeal bonds, and (iii) other non-delinquent obligations of a like nature; in each case, incurred in the ordinary course of business;

(f) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the businesses of the Company and its Subsidiaries;

(g) Liens securing obligations in respect of import letters of credit incurred by the Company in the ordinary course of its business;

(h) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided that (i) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Company in excess of those set forth by regulations promulgated by the FRB, and (ii) such deposit account is not intended by the Company or any Subsidiary to provide collateral to the depository institution; and

(i) Liens on the property or assets of a corporation which becomes a Subsidiary after the date hereof securing Indebtedness permitted by Section 7.05(e), provided that (1) such Liens existing at the time such corporation became a Subsidiary and were not created in anticipation of the Acquisition, (2) any such Lien does not by its terms cover any type of property or assets after the time such Person becomes a Subsidiary which were not of a type covered immediately prior thereto, and (3) any such Lien does not by its terms secure any Indebtedness other than Indebtedness existing immediately prior to the existing time as such Person becomes a Subsidiary.

#### 7.02. Disposition of Assets.

The Company shall not, and shall not suffer or permit any Subsidiary to, directly or indirectly, sell, assign, lease, convey, transfer or otherwise dispose of (whether in one or a series of transactions) any property (including accounts and notes receivable, with or without recourse) or enter into any agreement to do any of the foregoing, except:

(a) dispositions of inventory, or used, worn-out or surplus equipment, all in the ordinary course of business;



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(b) to the Company or a Subsidiary so long as no Default or Event of Default shall have occurred and is continuing;

7.03. Consolidations and Mergers.

The Company shall not, and shall not suffer or permit any Subsidiary to, merge, consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except:

(a) any Subsidiary may merge with the Company; provided that the Company shall be the continuing or surviving corporation, or with any one or more Subsidiaries; provided that if any transaction shall be between a Subsidiary and a Wholly-Owned Subsidiary, the Wholly-Owned Subsidiary shall be the continuing or surviving corporation;

(b) any Subsidiary may sell all or substantially all of its assets (upon voluntary liquidation or otherwise), to the Company or another Wholly-Owned Subsidiary; and

(c) the Company may effect any Acceptable Acquisition.

7.04. Loans and Investments.

The Company shall not purchase or acquire, or suffer or permit any Subsidiary to purchase or acquire, or make any commitment therefor, any capital stock, equity interest, or any obligations or other securities of, or any interest in, any Person, or make or commit to make any Acquisitions, or make or commit to make any advance, loan, extension of credit or capital contribution to or any other investment in, any Person including any Affiliate of the Company (together, "Investments"), except for:

(a) Investments held by the Company or Subsidiary in the form of Cash Equivalents;

(b) extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods or services in the ordinary course of business;

(c) extensions of credit by the Company to any of its Wholly-Owned Subsidiaries or by any of its Wholly-Owned Subsidiaries to another of its Wholly-Owned Subsidiaries; and

(d) Acceptable Acquisitions.

7.05. Limitation on Indebtedness.

The Company shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume, suffer to exist, or otherwise become or remain directly or indirectly liable with respect to, any Indebtedness, except:

(a) Indebtedness of the Company incurred pursuant to this Agreement;

(b) Indebtedness of the Company consisting of Contingent Obligations permitted pursuant to Section 7.08;

(c) Indebtedness of the Company existing on the Closing Date and set forth in Schedule 7.05;

(d) Indebtedness of the Company incurred in connection with leases permitted pursuant to Section 7.09;

(e) Subordinated Debt;

(f) Indebtedness of a Person which becomes a Subsidiary after the date hereof, provided that (i) such Indebtedness existed at the time such corporation became a Subsidiary and was not created in anticipation of the acquisition and (ii) immediately after giving effect to the acquisition of such Person by the Company no Default or Event of Default shall have occurred and be continuing;

(g) Indebtedness of Foreign Subsidiaries consisting of intercompany borrowings equal to an aggregate of no more than \$10,000,000 outstanding at any given time;

(h) Indebtedness of Foreign Subsidiaries to third parties equal to an aggregate of no more than \$5,000,000 outstanding at any given time;

(i) Indebtedness in respect of letters of credit issued for the account of the Company and Subsidiaries in an aggregate face amount outstanding of up to \$2,000,000;

(j) Indebtedness in respect of the existing \$400,000 letter of credit issued by the Bank in favor of the Company's landlord; and

(k) other Indebtedness of the Company and domestic Subsidiaries equal to an aggregate of no more than \$5,000,000 outstanding at any given time.

#### 7.06. Transactions with Affiliates.

The Company shall not, and shall not suffer or permit any Subsidiary to, enter into any transaction with any Affiliate of the Company, except upon fair and reasonable terms no less favorable to the Company or such Subsidiary than would obtain in a comparable arm's-length transaction with a Person not an Affiliate of the Company or such Subsidiary.

#### 7.07. Use of Proceeds.

(a) The Company shall not, and shall not suffer or permit any Subsidiary to, use any portion of the Loan proceeds, directly or indirectly, (i) to purchase or carry Margin Stock in violation of Regulation U, (ii) to repay or otherwise refinance indebtedness of the Company or others incurred to purchase or carry Margin Stock in

violation of Regulation U, (iii) to extend credit for the purpose of purchasing or carrying any Margin Stock in violation of Regulation U, or (iv) to acquire any security in any transaction that is subject to Section 13 or 14 of the Exchange Act.

(b) The Company shall not, and shall not suffer or permit any Subsidiary to use any portion of the Loan proceeds, directly or indirectly, to make any Acquisition that is not an Acceptable Acquisition.

#### 7.08. Contingent Obligations.

The Company shall not, and shall not suffer or permit any Subsidiary to, create, incur, assume or suffer to exist any Contingent Obligations except:

(a) endorsements for collection or deposit in the ordinary course of business;

(b) Contingent Obligations of the Company and its Subsidiaries existing as of the Closing Date and listed in Schedule 7.08;

(c) Contingent Obligations with respect to Surety Instruments incurred in the ordinary course of business;

(d) Swap obligations of the Company; and

(e) Guaranty Obligations with respect to Indebtedness of Subsidiaries permitted pursuant to Section 7.05(e).

(f) Contingent Obligations under checks issued to customers in the ordinary course of business under the Company's Relationship Guarantee Program not to exceed an aggregate amount at any one time outstanding of \$1,500,000.

#### 7.09. Lease Obligations.

The Company shall not, and shall not suffer or permit any Subsidiary to, create or suffer to exist any obligations for the payment of rent for any property under lease or agreement to lease, except for:

(a) leases by the Company or any Subsidiary of real estate which, in the aggregate, do not result in annual rental obligations exceeding five percent (5%) of the annual consolidated gross revenues of the Company and its Subsidiaries for such year;

(b) leases by the Company or any Subsidiary, other than leases of real estate, in existence on the Closing Date and any renewal, extension or refinancing thereof;

(c) additional operating leases, other than leases of real estate, entered into by the Company or any Subsidiary after the Closing Date such that the annual rental payments for such additional leases do not exceed an aggregate of \$2,000,000; or

(d) leases, other than leases of real estate or as permitted in the clause (c)

above, entered into by the Company or any Subsidiary after the Closing Date pursuant to sale-leaseback transactions in an aggregate net present value not to exceed \$2,000,000.

7.10. Change in Business.

The Company shall not, and shall not suffer or permit any Subsidiary to, engage in any material line of business substantially different from those lines of business carried on by the Company and its Subsidiaries on the date hereof.

7.11. Accounting Changes.

The Company shall not, and shall not suffer or permit any Subsidiary to, make any significant change in accounting treatment or reporting practices, except as required by GAAP, or change the fiscal year of the Company or of any Subsidiary.

7.12. Financial Covenants.

The Company shall not:

(a) permit its Leverage Ratio as determined at the end of any fiscal quarter to be more than 2.50 to 1.00.

(b) permit its Interest Coverage Ratio as determined at the end of any fiscal quarter to be less than 3.00 to 1.00.

(c) permit its Current Ratio at any time to be less than 1.25 to 1.00.

(d) permit its Net Worth at any time to be less than the Net Worth as reported on the Company's audited 1997 fiscal year end statements, plus (i) seventy-five percent (75%) of the amount of the net proceeds to the Company of any offering of new equity interests issued by the Company after the date hereof, plus (ii) on a cumulative basis commencing with the fiscal quarter ending on March 31, 1998, fifty percent (50%) of Net Income (if positive) for any fiscal quarter ending on or after March 31, 1998.

7.13. Optional Payments of Subordinated Debt and Modifications of Related Debt.

The Company shall not make any optional payment or prepayment on or redemption, defeasance or purchase of any Indebtedness, including, without limitation, the Subordinated Debt, or amend, modify or change, or consent or agree to any amendment, modification or change to any of the terms relating to the payment or prepayment or principal of or interest on, any such Indebtedness, other than any amendment, modification or change which would extend the maturity or reduce the amount of any payment of principal thereof or which would reduce the rate or extend the date for payment of interest thereon.

7.14. No Losses.

The Company shall not have EBIT of less than \$0 during any fiscal year.

ARTICLE VIII - EVENTS OF DEFAULT

8.01. Event of Default.

Any of the following shall constitute an "Event of Default":

(a) The Company fails to pay, (i) when and as required to be paid herein, any amount of principal of any Loan or (ii) within three (3) days after the same becomes due, any interest, fee or any other amount payable hereunder or under any other Loan Document; or

(b) Any representation or warranty by the Company or any Subsidiary made or deemed made herein, in any Loan Document or which is contained in any certificate, document or financial or other statement by the Company or any Responsible Officer, furnished at any time under this Agreement, or in or under any other Loan Document, is incorrect in any material respect on or as of the date made or deemed made; or

(c) The Company fails to perform or observe any term, covenant or agreement contained in any of Section 6.03 or 6.09 or in ARTICLE VII; or

(d) The Company or any Subsidiary Guarantor fails to perform or observe any other term or covenant contained in this Agreement or any other Loan Document, and such default shall continue unremedied for a period of 30 days after the earlier of (i) the date upon which a Responsible Officer knew or reasonably should have known of such failure or (ii) the date upon which written notice thereof is given to the Company by the Bank; or

(e) (i) The Company or any Subsidiary (A) fails to make any payment in respect of any Indebtedness or Contingent Obligation (other than in respect of Swap Contracts), having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$500,000 when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure; or (B) fails to perform or observe any other condition or covenant, or any other event shall occur or condition exist, under any agreement or instrument relating to any such Indebtedness or Contingent Obligation, and such failure continues after the applicable grace or notice period, if any, specified in the relevant document on the date of such failure if the effect of such failure, event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Indebtedness to be declared to be due and payable prior to its stated maturity, or such Contingent Obligation to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (1) any event of default under such Swap Contract as to which the Company or any Subsidiary is the Defaulting

Contract) or (2) any Termination Event (as so defined) as to which the Company or any Subsidiary is an Affected Party (as so defined), and, in either event, the Swap Termination Value owed by the Company or such Subsidiary as a result thereof is greater than \$500,000; or

(f) The Company or any Subsidiary Guarantor (i) ceases or fails to be solvent, or generally fails to pay, or admits in writing its inability to pay, its debts as they become due, subject to applicable grace periods, if any, whether at stated maturity or otherwise; (ii) voluntarily ceases to conduct its business in the ordinary course; (iii) commences any Insolvency Proceeding with respect to itself; or (iv) takes any action to effectuate or authorize any of the foregoing; or

(g) (i) Any involuntary Insolvency Proceeding is commenced or filed against the Company or any Material Subsidiary, or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of the Company's or any Material Subsidiary's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) the Company or any Material Subsidiary admits the material allegations of a petition against it in any Insolvency Proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any Insolvency Proceeding; or (iii) the Company or any Material Subsidiary acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar Person for itself or a substantial portion of its property or business; or

(h) (i) An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Company under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$100,000 during any consecutive two year period; (ii) the aggregate amount of Unfunded Pension Liability among all Pension Plans at any time exceeds \$100,000 during any consecutive two year period; or (iii) the Company or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$100,000 during any consecutive two year period; or

(i) One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Company or any Material Subsidiary involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of \$250,000 or more singly, or \$1,000,000 or more in the aggregate and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 45 days after the entry thereof; or

(j) Any non-monetary judgment, order or decree is entered against the Company or any Subsidiary which does or would reasonably be expected to have a Material Adverse Effect, and there shall be any period of 45 consecutive days during

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which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(k) There shall exist any actions, suits, proceedings, claims or disputes pending, or to the best knowledge of the Company, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Company, or its Subsidiaries or any of their respective properties:

(i) which purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby or thereby; or

(ii) which, if determined adversely to the Company or its Subsidiaries, could result in a Material Adverse Effect.

(l) any Subsidiary Guaranty shall at any time after its execution and delivery and for any reason cease to be in full force and effect or shall be declared null and void, or the validity and enforceability thereof shall be contested by any Subsidiary Guarantor or any Subsidiary Guarantor shall deny it has any further liability or obligations thereunder and shall fail to perform its obligations thereunder.

#### 8.02. Remedies.

If any Event of Default occurs, the Bank may,

(a) declare the Commitment to be terminated, whereupon such Commitment shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Company; and

(c) exercise on behalf of itself all rights and remedies available to it under the Loan Documents or applicable law;

provided, however, that upon the occurrence of any event specified in subsection 8.01(f) or 8.01(g) (in the case of clause (i) of subsection (g) upon the expiration of the 60-day period mentioned therein), the obligation of the Bank to make Loans shall automatically terminate and the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable without further act of the Bank.

#### 8.03. Rights Not Exclusive.

The rights provided for in this Agreement and the other Loan Documents are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law or in equity, or under any other instrument, document or agreement now existing or hereafter arising.

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#### ARTICLE IX - MISCELLANEOUS

##### 9.01. Amendments and Waivers.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent with respect to any departure by the Company or any applicable Subsidiary therefrom, shall be effective unless the same shall be in writing and signed by the Bank and the Company, and then any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

##### 9.02. Notices.

(a) All notices, requests, consents, approvals, waivers and other communications shall be in writing (including, unless the context expressly otherwise provides, by facsimile transmission, provided that any matter transmitted by facsimile (i) shall be immediately confirmed by a telephone call to the recipient at the number specified on Schedule 9.02, and (ii) shall be followed promptly by delivery of a hard copy original thereof) and mailed, faxed or delivered, to the address or facsimile number specified for notices on Schedule 9.02; or, as directed to the Company or the Bank, to such other address as shall be designated by such party in a written notice to the other party.

(b) All such notices, requests and communications shall, when transmitted by overnight delivery, or faxed, be effective when delivered for overnight (next-day) delivery, or transmitted in legible form by facsimile machine, respectively, or if mailed, upon the third Business Day after the date deposited into the U.S. mail, or if delivered, upon delivery; except that notices pursuant to ARTICLE II to the Bank shall not be effective until actually received by the Bank.

(c) Any agreement of the Bank herein to receive certain notices by telephone or facsimile is solely for the convenience and at the request of the Company. The Bank shall be entitled to rely on the authority of any Person purporting to be a Person authorized by the Company to give such notice and the Bank shall not have any liability to the Company or other Person on account of any action taken or not taken by the Bank in reliance upon such telephonic or facsimile notice. The obligation of the Company to repay the Loans shall not be affected in any way or to any extent by any failure by the Bank to receive written confirmation of any telephonic or facsimile notice or the receipt by the Bank of a confirmation which is at variance with the terms understood by the Bank to be contained in the telephonic or facsimile notice.

##### 9.03. No Waiver; Cumulative Remedies.

No failure to exercise and no delay in exercising, on the part of the Bank, any right, remedy, power or privilege hereunder, shall operate as a waiver



thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

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#### 9.04. Costs and Expenses.

The Company shall:

(a) whether or not the transactions contemplated hereby are consummated, pay or reimburse The Chase Manhattan Bank within five Business Days after demand (subject to subsection 4.01(j)) for all reasonable costs and expenses incurred by The Chase Manhattan Bank in connection with the development, preparation, delivery and execution of, and any amendment, supplement, waiver or modification to (in each case, whether or not consummated), this Agreement, any Loan Document and any other documents prepared in connection herewith or therewith, and the consummation of the transactions contemplated hereby and thereby, including reasonable Attorney Costs incurred by The Chase Manhattan Bank with respect thereto; and

(b) pay or reimburse the Bank within five Business Days after demand (subject to subsection 4.01(j)) for all reasonable costs and expenses (including Attorney Costs) incurred by it in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or any other Loan Document during the existence of an Event of Default or after acceleration of the Loans (including in connection with any "workout" or restructuring regarding the Loans, and including in any Insolvency Proceeding or appellate proceeding).

#### 9.05. Company Indemnification.

Whether or not the transactions contemplated hereby are consummated, the Company shall indemnify, defend and hold the Bank and each of its respective officers, directors, employees, counsel, agents and attorneys-in-fact (each, an "Indemnified Person") harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, charges, expenses and disbursements (including reasonable Attorney Costs but excluding costs covered by Section 9.04(a)) of any kind or nature whatsoever which may at any time (including at any time following repayment of the Loans) be imposed on, incurred by or asserted against any such Person in any way relating to or arising out of this Agreement or any document contemplated by or referred to herein, or the transactions contemplated hereby, or any action taken or omitted by any such Person under or in connection with any of the foregoing, including with respect to any investigation, litigation or proceeding (including any Insolvency Proceeding or appellate proceeding) related to or arising out of this Agreement or the Loans or the use of the proceeds thereof, whether or not any Indemnified Person is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided, that the Company shall have no obligation hereunder to any Indemnified Person with respect to Indemnified Liabilities to the extent resulting from the gross negligence or willful misconduct of such Indemnified Person. The agreements in this Section shall survive payment of all other Obligations.

#### 9.06. Payments Set Aside.

To the extent that the Company makes a payment to the Bank or the Bank exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside or required

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(including pursuant to any settlement entered into by the Bank in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any Insolvency Proceeding or otherwise, then to the extent of such recovery the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

#### 9.07. Successors and Assigns.

The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Company may not assign or transfer any of its rights or obligations under this Agreement without the prior written of the Bank.

#### 9.08. Assignments, Participations, etc.

(a) The Bank may, with the consent of the Company (which consent shall not be unreasonably withheld) at any time assign and delegate to an Eligible Assignee (an "Assignee") the Loans, the Commitment, and the other rights and obligations of the Bank hereunder. Upon the making of such an assignment the Assignee shall, for all purposes, be considered the "Bank" under this Agreement.

(b) The Bank may at any time sell to one or more commercial banks or other financial institutions not Affiliates of the Company (a "Participant") participating interests in any ratable part (but not all) of any Loans, the Commitment of the Bank and the other interests of the Bank hereunder and under the other Loan Documents; provided, however, that (i) the Bank's obligations under this Agreement shall remain unchanged, (ii) the Bank shall remain solely responsible for the performance of such obligations, (iii) the Company, shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations under this Agreement and the other Loan Documents, and (iv) the Bank shall not transfer or grant any participating interest under which the Participant has rights to approve any amendment to, or any consent or waiver with respect to, this Agreement or any other Loan Document. In the case of any such participation, the Participant shall not have any rights under this Agreement, or any of the other Loan Documents, and all amounts payable by the Company hereunder shall be determined as if the Bank had not sold such participation; except that, if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement.

(c) Notwithstanding any other provision in this Agreement, the

Bank may at any time create a security interest in, or pledge, all or any portion of its rights under and interest in this Agreement in favor of any Federal Reserve Bank in accordance with Regulation A of the FRB or U.S. Treasury Regulation 31 CFR Section 203.14, and such Federal Reserve Bank may enforce such pledge or security interest in any manner permitted under applicable law.

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#### 9.09. Confidentiality.

The Bank agrees to, and to take those steps reasonably required to cause its Affiliates, representatives and independent contractors to, take normal and reasonable precautions and exercise due care to maintain the confidentiality of all information provided to it or on its behalf by the Company or any Subsidiary, under this Agreement or any other Loan Document, and neither it nor any of its Affiliates shall use any such information other than in connection with or in enforcement of this Agreement and the other Loan Documents or in connection with other business now or hereafter existing or contemplated with the Company or any Subsidiary; except to the extent such information (i) was or becomes generally available to the public other than as a result of disclosure by the Bank, or (ii) was or becomes available on a non-confidential basis from a source other than the Company, provided that such source is not bound by a confidentiality agreement with the Company known to the Bank; provided, however, that the Bank may disclose such information (A) at the request or pursuant to any requirement of any Governmental Authority to which the Bank is subject or in connection with an examination of the Bank by any such authority; (B) pursuant to subpoena or other court process provided the Company is given prior notice of such process; (C) when required to do so in accordance with the provisions of any applicable Requirement of Law provided the Company is given prior notice of such process; (D) to the extent reasonably required in connection with any litigation or proceeding to the Bank or its Affiliates may be party; (E) to the extent reasonably required in connection with the exercise of any remedy hereunder or under any other Loan Document; (F) to the Bank's independent auditors and other professional advisors; (G) to any Participant or Assignee, actual or potential, provided that such Person agrees in writing to keep such information confidential to the same extent required of the Bank hereunder; (H) as to the Bank or its Affiliate, as expressly permitted under the terms of any other document or agreement regarding confidentiality to which the Company or any Subsidiary is party or is deemed party with the Bank or such Affiliate; and (I) to its Affiliates.

#### 9.10. Set-off.

In addition to any rights and remedies of the Bank provided by law, if an Event of Default exists and the Loans have been accelerated, the Bank is authorized at any time and from time to time, without prior notice to the Company, any such notice being waived by the Company to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, the Bank to or for the credit or the account of the Company against any and all Obligations owing to the Bank, now or hereafter existing, irrespective of whether or not the Bank shall have made demand under this Agreement or any Loan Document and although such Obligations may be contingent or unmatured. The Bank agrees promptly to notify the Company after any such set-off and application made by the Bank; provided, however, that the failure to give such notice shall not affect the validity of such set-off

and application.

9.11. Counterparts.

This Agreement may be executed in any number of separate counterparts, each of which, when so executed, shall be deemed an original, and all of said counterparts taken together shall be deemed to constitute but one and the same instrument.

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9.12. Severability.

The illegality or unenforceability of any provision of this Agreement or any instrument or agreement required hereunder shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Agreement or any instrument or agreement required hereunder.

9.13. No Third Parties Benefited.

This Agreement is made and entered into for the sole protection and legal benefit of the Company and the Bank, and their permitted successors and assigns, and no other Person shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement or any of the other Loan Documents.

9.14. Governing Law and Jurisdiction.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK; PROVIDED THAT THE BANK SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE COMPANY AND THE BANK CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE COMPANY AND THE BANK IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE COMPANY AND THE BANK EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY NEW YORK LAW.

9.15. Waiver of Jury Trial.

THE COMPANY AND THE BANK EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE COMPANY AND THE BANK EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT

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LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

9.16. Termination of Existing Credit.

This Amended and Restated Credit Agreement amends, restates and supersedes the Existing Credit Agreement. The Bank's commitment to make loans to the Company pursuant to the terms of the Existing Credit Agreement is hereby terminated. The Bank releases (a) any security interests in the assets of the Company and its Subsidiaries granted by the Company to the Bank in connection with the Existing Credit Agreement, and (a) the guarantees in favor of the Bank given by the Subsidiaries that executed the Unlimited Guaranty dated May 5, 1995, except for the obligations of any Subsidiary Guarantor which have been amended and restated in connection herewith.

9.17. Entire Agreement.

This Agreement, together with the other Loan Documents, embodies the entire agreement and understanding among the Company and the Bank and supersedes all prior or contemporaneous agreements and understandings of such Persons, verbal or written, relating to the subject matter hereof and thereof.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in New Jersey by their proper and duly authorized officers as of the day and year first above written.

Dendrite International, Inc.

By: /s/ George Robson

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George Robson  
Chief Financial Officer and Senior Vice  
President

The Chase Manhattan Bank

By: /s/ Leonard D. Noll

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Leonard D. Noll  
Vice President

## EXHIBIT 21

## SUBSIDIARIES

1. Dendrite Delaware, Inc., a Delaware corporation
2. Dendrite Corporate Services, Inc., a New Jersey corporation
3. Dendrite UK Ltd., organized under the laws of the United Kingdom
4. Dendrite Japan K.K., organized under the laws of Japan
5. Dendrite Pty. Ltd., organized under the laws of Australia
6. Dendrite (New Zealand) Ltd., organized under the laws of New Zealand
7. Dendrite Netherlands, B.V., organized under the laws of the Netherlands
8. Dendrite France, S.A., organized under the laws of France
9. Dendrite Italia, S.r.l., organized under the laws of Italy
10. Dendrite (Deutschland) GmbH, organized under the laws of Germany
11. Dendrite Brasil Ltda., organized under the laws of Brazil
12. Dendrite Financial Services, Inc., a Delaware corporation
13. Dendrite Holdings Inc., a Delaware corporation
14. Dendrite Portugal, organized under the laws of Portugal
15. Dendrite Belgium S.A., organized under the laws of Belgium
16. Associated Business Computing N.V., organized under the laws of Belgium
17. Adem Information N.V., organized under the laws of Belgium

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statements File Nos. 333-14363, 333-19141, 333-24329, 333-35701, 333-09090 and 333-09092.

/s/ Arthur Andersen LLP

Philadelphia, Pa.,

March 23, 1999

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