SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)
Under the Securities Exchange Act of 1934

SYSTEM SOFTWARE ASSOCIATES, INC.
(Name of Issuer)

Common Stock, Par Value $.0033 Per Share
(Title of Class of Securities)

87183910
(CUSIP Number)

Steven M. Woghin, Esq.
Senior Vice President and General Counsel
Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, New York 11788
(516) 342-5224
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

September 8, 1997
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a Statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this Schedule because of Rule 13d-1(b)(3) or (4), check the following box [ ]

CUSIP No. 87183910 13D

1 Name of Reporting Person
S.S. or I.R.S. Identification No. of Above Person
Computer Associates International, Inc. 13-2857434

2 Check the Appropriate Box if a Member of a Group (a) [ ]
(See Instructions) (b) [ ]

3 SEC Use Only

4 Sources of Funds (See Instructions)
WC

5 Check Box if Disclosure of Legal Proceedings is Required Pursuant to Item 2(d) or 2(e) [ ]

6 Citizenship or Place of Organization
Delaware

Number of Shares	7	Sole Voting Power 3,603,603
Beneficially Owned by	8	Shared Voting Power 0
Each Reporting	9	Sole Dispositive Power 3,603,603
Person With	10	Shared Dispositive Power 0

11 Aggregate Amount Beneficially Owned by Each Reporting Person
3,603,603

12 Check Box if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) [ ]

13 Percent of Class Represented by Amount in Row (11)
7.8%

14 Type of Reporting Person (See Instructions)
CO

Item 1. Security and Issuer.

The class of equity securities to which this Statement relates is the Common Stock, par value $.0033 per share (the Common Stock), of System Software Associates, Inc., a Delaware corporation (the Issuer), with its principal executive offices located at 500 West Madison, Chicago, Illinois 60661.

Item 2. Identity and Background.

(a)-(c), (f) This Statement is filed by Computer Associates International, Inc., a Delaware corporation (Computer Associates). Computer Associates is engaged in the design, development, marketing and support of standardized computer software products for use with a broad range of desktop, midrange and mainframe computers from many different hardware manufacturers. The principal executive offices of Computer Associates are located at One Computer Associates Plaza, Islandia, New York 11788.

The name, business address and present principal occupation or employment of each director and executive officer of Computer Associates and the name, principal business and address of any corporation or other organization in which such employment is conducted is set forth below. Each such person is a citizen of the United States of America, except for Willem F.P. de Vogel who is a citizen of The Netherlands. Unless otherwise indicated below, the business address of each such person is c/o Computer Associates International, Inc., One Computer Associates Plaza, Islandia, New York 11788.

Russel M. Artzt is a director and Executive Vice President-Research and Development of Computer Associates.

Willem F.P. de Vogel, a director of Computer Associates, is the President of Three Cities Research, Inc., a private investment management firm. The business address of Mr. de Vogel is c/o Three Cities Research, Inc., 135 East 57th Street, New York , New York 10022.

Irving Goldstein, a director of Computer Associates, is the Director General and Chief Executive Officer of INTELSAT, an international satellite telecommunications company. The business address of Mr. Goldstein is c/o INTELSAT, 3400 International Drive, N.W., Washington, D.C. 20008.

Richard A. Grasso, a director of Computer Associates, is the Chairman and Chief Executive Officer of the New York Stock Exchange, a national securities exchange. The business address of Mr. Grasso is c/o New York Stock Exchange, 11 Wall Street, New York, New York 10005.

Shirley Strum Kenny, a director of Computer Associates, is the President of the State University of New York at Stony Brook, a New York State-run university. The business address of Ms. Kenny is President s Office, State University of New York at Stony Brook, Stony Brook, New York 11794.

Sanjay Kumar is a director and President and Chief Operating Officer of Computer Associates.

Charles B. Wang is a director and Chief Executive Officer and Chairman of the Board of Computer Associates.

Michael A. McElroy is a Vice President-Legal and Secretary of Computer Associates.

Charles P. McWade is a Senior Vice President-Finance of Computer Associates.

Peter A. Schwartz is a Senior Vice President-Finance and Chief Financial Officer of Computer Associates.

Ira H. Zar is a Senior Vice President and Treasurer of Computer Associates.

(d) and (e) Neither Computer Associates nor, to the knowledge of Computer Associates, any of the other persons specified in Item 2 above has during the last five years (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

On March 27, 1997, pursuant to the Note Purchase Agreement between the Issuer and Computer Associates, a copy of which is attached as Exhibit 1 to this Statement (the Note Purchase Agreement), the Issuer issued and delivered to Computer Associates, and Computer Associates purchased, in a private placement Issuer s Floating Rate Convertible Note Due 2000 in the principal amount of $12 million. A copy of the Floating Rate Convertible Note Due 2000 is attached as Exhibit 2 to this Statement (the Convertible Note). Computer Associates paid the $12 million purchase price for the Convertible Note using working capital available to it. The principal amount of the Convertible Note, in whole or in part, may be converted into shares of Common Stock at a per share conversion price of $3.33. Such conversion price is subject to adjustment as set forth in the Convertible Note.

The information set forth in this Item 3 is qualified in its entirety by reference to the Note Purchase Agreement and the Convertible Note, each of which is incorporated herein by reference.

Item 4. Purpose of Transaction.

Computer Associates purchased the Convertible Note on March 27, 1997 for investment purposes. Computer Associates will continue to evaluate its investment in the Issuer on the basis of various factors, including the Issuer s business, financial condition, results of operations and prospects, general economic and industry conditions, the securities markets in general and those for the Issuer s securities in particular, Computer Associates own financial condition, other investment opportunities and other future developments. Based upon such evaluation, Computer Associates will take such actions in the future as Computer Associates may deem appropriate in light of the circumstances existing from time to time. Depending on market and other factors, Computer Associates may determine to dispose of all or a portion of the Convertible Note or the shares of Common Stock issuable upon conversion of the Convertible Note (the Conversion Shares) or to enter into option or other transactions (including, without limitation, hedging transactions) with third parties with respect to the Common Stock.

Except as set forth in this Item 4, Computer Associates has no plans or proposals with respect to any of the actions specified in clauses (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

(a) As of the close of business on September 17, 1997, Computer Associates beneficially owned 3,603,603 shares of Common Stock, all of which are issuable upon conversion of the Convertible Note. Assuming full conversion of the Convertible Note, such 3,603,603 shares represent approximately 7.8% of the outstanding shares of Common Stock (computed on the basis of 42,652,000 shares of Common Stock outstanding as of July 31, 1997 as specified in Amendment No. 3, filed on September 3, 1997, to the Issuer s Registration on Form S-3 (Registration No. 333-31271) (the Registration Statement) relating to the Issuer s public offering of Convertible Subordinated Notes Due 2002 (the Public Note Offering) plus 3,603,603 shares issuable upon conversion of the Convertible Note).

Computer Associates acquired beneficial ownership of the 3,603,603 Conversion Shares pursuant to the Letter Agreement dated September 9, 1997 between the Issuer and Computer Associates, a copy of which is attached as Exhibit 3 to this Statement (the Letter Agreement) and is incorporated herein by reference. The Letter Agreement provides, among other things, that the Convertible Note may be converted into shares of Common Stock, at the option of Computer Associates, beginning 45 days after the effective date of the Registration Statement. According to the Company, the Registration Statement was declared effective by the Securities and Exchange Commission (the Commission) on September 8, 1997 (the Public Offering Date).

To the knowledge of Computer Associates, none of Computer Associates directors, executive officers, affiliates or associates beneficially owns any equity securities, or rights to acquire any equity securities, of the Issuer.

(b) Computer Associates has the sole power to vote or to direct the vote, and to dispose or to direct the disposition of, the 3,603,603 Conversion Shares.

(c) On July 15, 1997, in a privately negotiated transaction, Computer Associates purchased from RBC Dominion Securities Corporation as agent for Royal Bank of Canada (together, RBC), at a price of $1.00 per option, 1,200,000 options to sell one share of Common Stock per option to RBC at a price per share of $7.800726 (collectively, the Put Options). Simultaneously with the purchase of the Put Options, in a privately negotiated transaction, RBC purchased from Computer Associates, at a price of $1.00 per option, 1,200,000 options to purchase one share of Common Stock per option from Computer Associates at a price per share of $9.827355 (collectively, the Call Options and, together with the Put Options, the SSA Options). The SSA Options are deemed to be automatically exercised on the expiration date of July 15, 1999 and, except in certain limited circumstances, may not be exercised prior to such expiration date. Unless Computer Associates elects to settle the SSA Options using shares of Common Stock, the SSA Options will be settled by a net cash payment from Computer Associates to RBC or from RBC to Computer Associates depending upon the arithmetic average of the closing prices of the Common Stock on July 13, 1999, July 14, 1999 and July 15, 1999.

(d) No other person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, any of the 3,603,603 Conversion Shares

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with respect to Securities of the Issuer.

On March 27, 1997, pursuant to the Note Purchase Agreement, the Issuer issued and delivered to Computer Associates, and Computer Associates purchased, in a private placement the Convertible Note for $12 million. The principal amount of the Convertible Note, in whole or in part, may be converted into shares of Common Stock at a per share conversion price of $3.33, subject to adjustment as set forth in the Convertible Note. The Convertible Note was convertible into shares of Common Stock at the option of (i) Computer Associates, at any time after March 27, 1998 or any time prior to such date following either the Issuer s issuance of a redemption notice to redeem the Convertible Note or the occurrence and continuance of an event of default under the Convertible Note or (ii) the Issuer, if the closing price of the Common Stock is equal to or in excess of $20.00 per share for any 20 trading days in any 30 trading day period. The Note Purchase Agreement and the Convertible Note also contain, among other things, certain covenants and representations and warranties of the Issuer, registration rights with respect to the Conversion Shares, transfer restrictions on the Convertible Note and the Conversion Shares, and anti-dilution provisions.

On September 8, 1997, in connection with the Public Note Offering, Computer Associates executed a Letter to Hambrecht & Quist, LLC and Lazard Freres & Co., LLC, a copy of which is attached as Exhibit 4 to this Statement (the Lock-up Letter), pursuant to which Computer Associates agreed that it will not (i) offer, sell, pledge or otherwise contract to sell, grant or sell any option or other contract to purchase, purchase or otherwise acquire any option or other contract to sell or otherwise dispose of or transfer any Conversion Shares, (ii) enter into hedging transactions with respect to any Conversion Shares or (iii) enter into any swap or any other agreement or transaction that transfers the economic consequences of ownership of any Conversion Shares. Such restrictions became effective on the Public Offering Date and will remain in effect until 45 days after the Public Offering Date with respect to 1,200,000 Conversion Shares and 90 days after the Public Offering Date with respect to the other 2,403,603 Conversion Shares.

On September 9, 1997, in connection with the execution of the Lock-up Letter, the Issuer and Computer Associates entered into the Letter Agreement, pursuant to which, among other things, the Issuer agreed to file with the Commission within five business days after the Public Offering Date a registration statement covering all of the Conversion Shares, and to use its best efforts to have such registration statement declared effective by the Commission within 45 days after the Public Offering Date. In addition, pursuant to the Letter Agreement, Computer Associates and the Issuer agreed that the Issuer could not exercise its right to redeem the Convertible Note until the later of the effective date of the registration of the Conversion Shares or 90 days after the Public Offering Date, and that the Convertible Note shall be convertible into Conversion Shares, at the option of Computer Associates, beginning 45 days after the Public Offering Date.

The information set forth above in this Item 6 is qualified in its entirety by reference to the Note Purchase Agreement, the Convertible Note, the Lock-up Letter and the Letter Agreement, each of which is incorporated herein by reference.

On July 15, 1997, in a privately negotiated transaction, Computer Associates purchased from RBC Dominion Securities Corporation as agent for Royal Bank of Canada (together, RBC), at a price of $1.00 per option, 1,200,000 options to sell one share of Common Stock per

option to RBC at a price per share of $7.800726 (collectively, the Put Options). Simultaneously with the purchase of the Put Options, in a privately negotiated transaction, RBC purchased from Computer Associates, at a price of $1.00 per option, 1,200,000 options to purchase one share of Common Stock per option from Computer Associates at a price per share of $9.827355 (collectively, the Call Options and, together with the Put Options, the SSA Options). The SSA Options are deemed to be automatically exercised on the expiration date of July 15, 1999 and, except in certain limited circumstances, may not be exercised prior to such expiration date. Unless Computer Associates elects to settle the SSA Options using shares of Common Stock, the SSA Options will be settled by a net cash payment from Computer Associates to RBC or from RBC to Computer Associates depending upon the arithmetic average of the closing prices of the Common Stock on July 13, 1999, July 14, 1999 and July 15, 1999.

Except as described in this Statement, to the knowledge of Computer Associates, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the persons named in Item 2 hereof and between such persons and any other person with respect to any securities of the Issuer, including, but not limited to, transfer or voting of any of such securities, finder s fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

Exhibit 1 Note Purchase Agreement, dated March 27, 1997, between the Issuer and Computer Associates

Exhibit 2 $12,000,000 Floating Rate Convertible Note Due 2000 issued on March 27, 1997 by the Issuer to Computer Associates

Exhibit 3 Letter Agreement dated September 9, 1997 between the Issuer and Computer Associates

Exhibit 4 Letter dated September 8, 1997 from Computer Associates to Hambrecht & Quist, LLC and Lazard Freres & Co., LLC

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this Statement is true, complete and correct.

Dated: September [18], 1997

COMPUTER ASSOCIATES INTERNATIONAL, INC.

By:/s/ Peter Schwartz

Name: Peter Schwartz
Title: Senior Vice President, Chief Financial Officer

Exhibit 1

$12,000,000
FLOATING RATE CONVERTIBLE NOTES
Due 2000

NOTE PURCHASE AGREEMENT
dated
March 27, 1997
between
SYSTEM SOFTWARE ASSOCIATES, INC.
and
COMPUTER ASSOCIATES INTERNATIONAL, INC.

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EXHIBITS

Exhibit A - Form of Floating Rate Convertible Note Due 2000

Exhibit B - Form of Consent of Bank of America National Trust and Savings Association and American National Bank and Trust Company of Chicago

Exhibit C - Form of Consent of Principal Mutual Life Insurance Company and Massachusetts Mutual Life Insurance Company

Exhibit D - Form of Opinion of Counsel to the Company

NOTE PURCHASE AGREEMENT dated as of March 27, 1997 between SYSTEM SOFTWARE ASSOCIATES, INC., a Delaware corporation (the Company), and COMPUTER ASSOCIATES INTERNATIONAL, INC., a Delaware corporation (the Purchaser).

The parties hereto agree as follows:

1. Issuance of Securities and Reservation of Reserved Shares. Subject to the terms and conditions of this Agreement, the Company has authorized the issuance of its Floating Rate Convertible Notes Due 2000 (the Notes) in substantially the form of Exhibit A hereto in the aggregate principal amount of $12,000,000, and the Company has authorized the reservation of a sufficient number of shares of Common Stock, par value $.0033 per share (the Common Stock), including the associated Rights (as defined below in Section 3(b)) of the Company to provide for conversion of the Notes (such reserved shares being referred to herein as the Reserved Shares).

2. Purchase, Sale and Delivery. On the basis of the representations, warranties, covenants and agreements, but subject to the terms and conditions, set forth in this Agreement, at the Closing (as defined below), the Company agrees to sell and deliver to the Purchaser, and the Purchaser agrees to purchase from the Company, one or more Notes in the aggregate principal amount of $12,000,000 at 100% of the principal amount (the Purchase Price). The Purchaser will designate to the Company the number and denominations of Notes at least one business day prior to the Closing. The closing (the Closing) for the consummation of the transactions contemplated by this Agreement shall take place at 10:00 a.m., Eastern Standard Time, on March 27, 1996 at the offices of Howard, Darby & Levin, 1330 Avenue of the Americas, New York, New York 10019 or on such other date and location as the Purchaser and the Company may mutually agree (such date of the Closing being herein referred to as the Closing Date). The Purchase Price shall be delivered to the Company in funds payable at Closing by wire transfer of immediately available Federal funds (instructions for which will be provided by the Company to the Purchaser), against receipt of the Notes.

3. Representations and Warranties of the Company. Except in the case of any representation and warranty below, to the extent described under the caption identifying such representation and warranty in the Company Disclosure Letter dated the date of this Agreement and furnished by the Company to the Purchaser on the date of this Agreement (the Company Disclosure Letter), the Company represents and warrants, and agrees, as follows:

a. Organization. The Company and each of the subsidiaries of the Company, a list of which are set forth on Schedule 3(a) of the Company Disclosure Letter (each a Subsidiary and, collectively, the Subsidiaries), are corporations duly organized, validly existing and in good standing under the laws of their respective jurisdictions of incorporation, and are duly qualified and in good standing to do business in each jurisdiction in which such qualification is necessary because of the property owned or leased or because of the nature of business conducted by it, except for those jurisdictions where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), assets, liabilities, operations, earnings, business or prospects of the Company and its Subsidiaries, taken as a whole (a Material Adverse Effect). The Company does not own, directly or

indirectly, any equity interest in any corporation, partnership, joint venture or other entity other than the Subsidiaries.

b. Capital Stock; Indebtedness; Liens..

i. The authorized capital stock of the Company as of the date hereof consists of 60,000,000 shares of Common Stock and 100,000 shares of Preferred Stock, par value $.0033 per share, of which 42,613,825 shares of Common Stock, including associated Rights (the Rights) issued pursuant to the Rights Agreement, dated as of May 3, 1988, between the Company and The First National Bank of Chicago, as Rights Agent (the Rights Agreement), are validly issued and outstanding, fully paid and non-assessable, with no personal liability attaching to the ownership thereof, and no shares of Preferred Stock are issued or outstanding. All outstanding shares of capital stock of the Company are duly authorized and not subject to any pre-emptive rights. Except for such 42,613,825 shares of Common Stock, there are no other shares of capital stock or other securities of the Company issued or outstanding.

ii. There are no options, warrants, contracts, commitments or agreements to which the Company is a party or is bound relating to any shares of capital stock or other securities of the Company, whether or not outstanding. Other than the Purchaser pursuant to this Agreement, no person has any right to cause the Company to effect the registration under the Securities Act of 1933, as amended (the Securities Act), of Common Stock or any other securities of the Company. There are no voting trusts, voting agreements, proxies or other agreements or instruments with respect to the voting of the Company s capital stock to which the Company is a party or, to the best of the Company s knowledge, among or between any persons other than the Company.

iii. Schedule 3(b)(iii) of the Company Disclosure Letter sets forth a true and complete list of (1) all outstanding Indebtedness (as defined in the Notes) of the Company and its Subsidiaries and (2) all Liens (as defined in the Notes) (other than Liens arising by operation of law that constitute Permitted Liens under the Notes) of the Company and its Subsidiaries, in each case as of March 27, 1997.

c. Authorization of Agreement. The execution, delivery and performance by the Company of this Agreement are within the Company s corporate powers and have been duly authorized by all requisite corporate action by the Company; and this Agreement has been duly executed and delivered by the Company and constitutes the valid and binding obligation of the Company.

d. Authorization of Notes. The issuance, sale and delivery of the Notes are within the Company s corporate powers and have been duly authorized by all requisite corporate action of the Company, and when issued, sold and delivered in accordance with the provisions of this Agreement, the Notes will constitute the valid and binding obligations of the Company, enforceable in accordance with their terms.

e. Authorization of Shares. The Notes are convertible into Common Stock in accordance with the terms of this Agreement and of the Notes. The reservation, issuance and delivery of the Reserved Shares are within the Company s corporate powers and have been duly authorized by all requisite corporate action of the Company, and when issued and delivered in accordance with the terms of this Agreement and the terms of the

Notes, the Reserved Shares will be validly issued and outstanding, fully paid and non-assessable with no personal liability attaching to the ownership thereof, and not subject to preemptive or any other similar rights of the shareholders of the Company or others. The stockholders of the Company have no preemptive rights with respect to Notes, the Reserved Shares or the Common Stock.

f. Non-Contravention; No Required Consents. The execution, delivery and performance of this Agreement, the issuance, sale and delivery of the Notes and the reservation, issuance and delivery of the Reserved Shares, and compliance with the provisions hereof and thereof by the Company will not (i) violate any provision of law, statute, rule or regulation, or any ruling, writ, injunction, order, judgment, or decree of any court, administrative agency or other governmental body applicable to the Company, any of the Subsidiaries or any of their properties or assets or (ii) conflict with or result in any breach of any of the terms, conditions or provisions of, or constitute (with due notice or lapse of time, or both) a default (or give rise to any right of termination, cancellation or acceleration) under, or result in the creation of any lien, security interest, charge or encumbrance upon any of the properties or assets of the Company under, the Company s or any Subsidiary s articles of incorporation or bylaws, or (x) any note, indenture, mortgage, lease, contract, agreement or instrument (1) to which the Company is a party or by which it or any of its properties or assets are bound or affected and (2) relating to any debt owed by, or any capital stock issued by, the Company, (y) any other lease, contract, agreement or other instrument to which the Company is a party or by which any of its properties or assets are bound or affected or (z) any note, indenture, mortgage, lease, agreement or other contract, agreement or instrument to which any Subsidiary is a party or by which it or any of its properties or assets are bound or affected. Except for the filing of any notice subsequent to the Closing that may be required under applicable Federal or state securities laws (which, if required, shall be filed on a timely basis as may be so required), no consent, approval or authorization of, or declaration to, or filing with, any Person is required for the valid authorization, execution, delivery, and performance by the Company of this Agreement or for the valid authorization, issuance, sale and delivery of the Notes or for the valid authorization, reservation, issuance and delivery of the Reserved Shares. The term Person, as used herein, means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated association or any other entity or organization, including, without limitation, a government or political subdivision or an agency, instrumentality or official thereof.

g. Litigation. Except as disclosed in the Reports (as defined below), (i) there are no actions, suits, claims, investigations or legal or administrative or arbitration proceedings pending or, to the knowledge of the Company or any Subsidiary, threatened against or affecting the Company or any Subsidiary, whether at law or in equity, or before or by any Federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality which individually or in the aggregate would, if adversely determined, have a Material Adverse Effect, or which in any manner draws into question the validity of this Agreement, the Notes or the Reserved Shares or the transactions contemplated hereby or thereby; and (ii) there are no judgments, decrees, injunctions or orders of any court, governmental department, commission, agency, instrumentality or arbitrator against or affecting the Company or any Subsidiary, which individually or in the aggregate, would have a Material Adverse Effect.

h. Compliance; Governmental Authorizations. Each of the Company and each Subsidiary has complied, and is in compliance with, in all respects with the Federal, state, local or foreign laws, ordinances, regulations and orders (including environmental laws, ordinances, regulations and orders) necessary for the conduct of its business,

except where the failure to comply with any of the foregoing would not have a Material Adverse Effect. Each of the Company and each Subsidiary has all Federal, state and foreign governmental licenses and permits necessary in the conduct of its business as presently being conducted (including all those required by the United States Environmental Protection Agency and similar state agencies), such licenses and permits are in full force and effect, no violations are or have been recorded in respect of any thereof and no proceeding is pending or, to the knowledge of the Company or any Subsidiary, threatened to revoke or limit any thereof, except where the failure to comply with any of the foregoing would not have a Material Adverse Effect.

i. Financial Statements. The consolidated financial statements of the Company and the Subsidiaries set forth in the (i) Company s Annual Report on Form 10-K for the year ended October 31, 1996, reported on by KPMG Peat Marwick, and (ii) Company s Quarterly Report on Form 10-Q for the three months ended January 31, 1997, in each case fairly present the consolidated financial position of the Company and the Subsidiaries as of such date and the consolidated results of operation and cash flows for such period then ended in conformity with generally accepted accounting principles. KPMG Peat Marwick is the independent accountant as defined under the Securities Act and the rules and regulations promulgated thereunder.

j. Absence of Changes. Since October 31, 1996, the Company and each Subsidiary has been operated in the ordinary course of business consistent with past practice and there has not been (i) any material adverse change in the condition (financial or otherwise), assets, liabilities, operations, earnings, business or prospects of the Company and its Subsidiaries, taken as a whole; or (ii) any declaration, setting aside or payment of any dividend or other distribution with respect to any shares of Common Stock, or any direct or indirect redemption, purchase or other acquisition of any such shares of Common Stock.

k. Taxes. The federal income tax returns of the Company or its predecessors have never been examined by the Internal Revenue Service. Neither the Company nor its predecessors has taken any reporting positions for which they do not have a reasonable basis and the Company does not anticipate any further material tax liability with respect to the years for which returns have been filed prior to the date of this Agreement. For purposes of this paragraph, the term Company shall include each other corporation with which the Company files consolidated or combined income tax returns or reports. The Company and each Subsidiary have timely filed all United States federal income tax returns and all other material tax returns (federal, state, local and foreign) required to be filed by it, which returns are true and correct in all material respects, and all taxes, assessments, fees and other governmental charges thereupon and upon its properties, assets, income and franchises which are due and payable prior to the date of this Agreement, the failure of which to pay when due and payable has or is likely to have a Material Adverse Effect, have been paid when due and payable, or reserves have been provided for payment thereof to the extent required under generally accepted accounting standards. The Company does not know of any actual or proposed additional tax assessments for any fiscal period against it or any of the Subsidiaries which, singly or in the aggregate, would have a Material Adverse Effect and the Company has established adequate reserves for such additional tax assessments, if any.

l. Intellectual Property. The Company or a Subsidiary exclusively or jointly owns, or is licensed to use, all patents, licenses, copyrights, trademarks or trade names or other intellectual property rights (Intellectual Property) which the Company believes are

necessary, required or desirable for the conduct of the business of the Company and the Subsidiaries as presently conducted or as presently proposed to be conducted. There are no pending or threatened claims against the Company or any Subsidiary alleging that the conduct of the Company s or such Subsidiary s business (as now conducted or presently purposed to be conducted) infringes or conflicts with or will infringe or will conflict with the rights of others in any Intellectual Property. To the knowledge of the Company, no third party is infringing any of the Intellectual Property of the Company or any Subsidiary. To the Company s knowledge, neither the Company nor any Subsidiary is making unauthorized use of any confidential information or trade secrets of any person, including without limitation, any former or present employees of the Company or any Subsidiary.

M. Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a lien or the posting of a bond or other security under ERISA or the Internal Revenue Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute. ERISA Group means the Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Company, are treated as a single employer under Section 414 of the Internal Revenue Code. PBGC means the Pension Benefit Guaranty Company or any entity succeeding to any or all of its functions under ERISA. Benefit Arrangement means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group. Multiemployer Plan means at any time an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five Plan years made contributions, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period. Plan means at any time an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

n. No Defaults. Neither the Company nor any Subsidiary is in default (i) under its articles of incorporation or bylaws, or any indenture, mortgage, lease, purchase or sales order, or any other contract, agreement or instrument to which the Company or any Subsidiary is a party or by which they or any of their properties are bound or affected or (ii) with respect to any order, writ, injunction or decree of any court or any Federal, state, municipal or other domestic or foreign governmental department, commission, board, bureau, agency or

instrumentality, which defaults individually or in the aggregate would have a Material Adverse Effect. There exists no condition, event or act which constitutes, or which after notice, lapse of time, or both, would constitute, a default under any of the foregoing, which defaults individually or in the aggregate would have a Material Adverse Effect.

o. SEC Reports. The Company has delivered to the Purchaser its (i) Annual Report on Form 10-K for the year ended October 31, 1996 and (ii) Quarterly Report on Form 10-Q for the three months ended January 31, 1997 (together, the Reports). The description of the business, operations, properties and assets of the Company contained in the Reports, as well as all other factual statements concerning the Company contained therein, are true, correct and complete in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

p. Offering Exemption. Neither the Company nor any of its agents has offered or sold any Notes or Common Stock, or any similar security or securities to, or solicited any offers to buy any of the foregoing from, or otherwise approached or negotiated in respect thereof with, any person or persons so as to require registration of the Notes or the Reserved Shares under the Securities Act or qualification under the Trust Indenture Act of 1939. The offering and sale of the Notes and the issuance of the Reserved Shares upon conversion of the Notes are each exempt from registration under the Securities Act pursuant to Section 4(2) of such Act.

q. Use of Proceeds. The proceeds received by the Company from the sale of the Notes shall be used by the Company for general corporate purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any margin stock within the meaning of Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

r. Investment Company. The Company is not an investment company or an entity controlled by an investment company as such terms are defined in the Investment Company Act of 1940, as amended.

s. Disclosure. No document, certificate, instrument or written statement or information furnished or made available to the Purchaser by or on behalf of the Company in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. There is no fact peculiar to the Company which materially adversely affects (without regard to general market and economic conditions), or in the future may (so far as the Company can now foresee), to the best knowledge of the Company, materially adversely affect the business, operations, prospects, condition, properties or assets of the Company which has not been set forth in this Agreement or in the other documents, certificates, instruments or written statements furnished to the Purchaser by or on behalf of the Company pursuant hereto.

t. No Finders Fees. There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company or any Subsidiary who might be entitled to any fee or commission from the Company, any Subsidiary, the Purchaser or any

of Purchaser s affiliates upon consummation of the transactions contemplated by this Agreement or thereafter.

u. Delaware Law; Rights Agreement. The Board of Directors of the Company has approved this Agreement and the issuance and delivery of the Reserved Shares in accordance with the terms of this Agreement and the terms of the Notes, and such approval is sufficient to render the provisions of Section 203 of the Delaware General Corporation Law inapplicable to this Agreement and the transactions contemplated hereby and by the Notes. The Company has delivered to the Purchaser a complete and correct copy of the Rights Agreement, including all amendments and exhibits thereto. The Company has taken, and as soon as possible after the date hereof (but in no event later than two business days after the date hereof), the Rights Agent will take, all actions necessary or appropriate to amend the Rights Agreement to ensure that the execution of this Agreement and the issuance and delivery of the Reserved Shares in accordance with the terms of this Agreement and the terms of the Notes and the other transactions contemplated by this Agreement and the Notes will not cause (i) the Purchaser or any of its affiliates to be considered an Acquiring Person (as such term is defined in the Rights Agreement), (ii) the occurrence of a Distribution Date or Stock Acquisition Date (as such terms are defined in the Rights Agreement) or (iii) the separation of the Rights from the underlying Shares, and will not give the holders thereof the right to acquire securities of any party hereto.

4. Representations and Warranties of the Purchaser. The Purchaser represents and warrants to the Company as follows:

a. Investment Purpose. The Purchaser is acquiring the Notes for the Purchaser s own account, not as a nominee or agent, and the Purchaser is acquiring the Notes for investment and not with a view to the distribution thereof within the meaning of the Securities Act.

b. Restricted Securities.

i. The Purchaser understands that the Notes have not been registered under the Securities Act; and that the Notes are restricted securities within the meaning of Rule 144 under the Securities Act.

ii. The Purchaser understands that the Reserved Shares issuable upon conversion will not be registered under the Securities Act (except as otherwise provided in Section 6) and may only be sold or transferred in compliance with the Securities Act.

c. Accredited Investor. Purchaser is an Accredited Investor (as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended).

5. Conditions of Obligations of the Purchaser. The obligations of the Purchaser to perform under this Agreement are subject to the satisfaction of the following conditions unless waived by the Purchaser:

a. Note. The Purchaser shall have received a duly executed Note or Notes evidencing the principal amount of Notes purchased.

b. Actions Authorized. All action necessary to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby shall have been duly and validly taken by the Company, and the Company shall have full power and right to consummate the transactions contemplated hereby. The Company shall have furnished to the Purchaser such documents relating to its corporate existence and authority (including, without limitation, certified copies of the Company s Articles of Incorporation, Bylaws, resolutions and minutes of meetings of the Board of Directors authorizing the Agreement and good standing certificates from the Secretaries of State of the states of Delaware and Illinois and such other matters as the Purchaser or its counsel may reasonably request.

c. Consents. The Purchaser shall have received (i) a consent duly executed by Bank of America National Trust and Savings Association and American National Bank and Trust Company of Chicago in the form of Exhibit B and (ii) a consent duly executed by Principal Mutual Life Insurance Company and Massachusetts Mutual Life Insurance Company in the form of Exhibit C.

d. Legal Opinion. The Purchaser shall have received an opinion dated the Closing Date of Sachnoff & Weaver Ltd., counsel to the Company in the form of Exhibit D.

e. Representations and Warranties; Compliance; No Default. The representations and warranties of the Company in Section 3 shall be true and correct in all respects on and as of the Closing Date; the Company shall have complied with all obligations, covenants and conditions required to be complied with by it pursuant to this Agreement on or prior to the Closing; and the Purchaser shall have received a certificate signed by the Company s President and Chief Executive Officer to the foregoing effect. No Event of Default under the Notes and no event or condition which, with the giving of notice or the lapse of time or both, would, unless cured or waived, become such an Event of Default, shall have occurred and be continuing.

6. Transfer of Notes.

a. Restriction on Transfer. The Notes shall not be transferable except upon the conditions specified in this Section 6, which conditions are intended to ensure compliance with the provisions of the Securities Act in respect of the transfer of the Notes.

b. Restrictive Legend. Each Note shall (unless otherwise permitted by the provisions of Section 6(d)) be stamped or otherwise imprinted with legends in substantially the following form:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT. ADDITIONALLY, THE TRANSFER OF THIS NOTE IS SUBJECT TO THE CONDITIONS SPECIFIED IN SECTION 6 OF THE NOTE PURCHASE AGREEMENT PURSUANT TO WHICH THIS NOTE WAS PURCHASED, AND NO TRANSFER OF THIS NOTE SHALL BE VALID OR EFFECTIVE UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED.

c. Notice of Transfer. Each holder of a Note (a Holder), by acceptance thereof agrees, prior to any transfer of any Notes, to give written notice to the Company of such Holder's intention to effect such transfer and to comply in all other respects with the provisions of this Section 6(c). Each such notice shall describe the manner and circumstances of the proposed transfer and shall be accompanied by the written opinion of counsel for such Holder, as to whether in the opinion of such counsel such proposed transfer involves a transaction requiring registration of such Notes under the Securities Act. If in the opinion of such counsel the proposed transfer of the Notes may be effected without registration under the Securities Act, the Holder shall thereupon be entitled to transfer the Notes in accordance with the terms of the notice delivered by it to the Company. Each certificate or other instrument evidencing the securities issued upon the transfer of any Notes (and each certificate or other instrument evidencing any untransferred balance of such Notes) shall bear the legend set forth in Section 6(b) unless in the opinion of such counsel registration of future transfer is not required by the applicable provisions of the Securities Act. The Notes shall not be transferred in denominations of less than $1,000,000. Without the prior written consent of the Company, the Notes may not be transferred by the Purchaser or any transferee to any Person listed on Schedule 6(c) of the Company Disclosure Schedule (the Prohibited Transferees); provided that, if an Event of Default has occurred and is continuing, the Notes may be transferred to a Prohibited Transferee in which case the Company would only be obligated to deliver publicly available information to such Person pursuant to Section 8(a).

d. Removal of Legends, Etc. Notwithstanding the foregoing provisions of this Section 6, the restrictions imposed by Section 6 upon the transferability of any Notes shall cease and terminate when any such Notes are sold or otherwise disposed of in accordance with the intended method of disposition by the seller or sellers thereof contemplated by Section 6 which does not require that the Notes transferred bear the legend set forth in Section 6(b). Whenever the restrictions imposed by Section 6 shall terminate as herein provided, the holder of any Notes as to which such restrictions have terminated shall be entitled to receive from the Company, without expense, one or more new certificates not bearing the restrictive legend set forth in Section 6(b) and not containing any other reference to the restrictions imposed by Section 6.

7. Registration of Registrable Stock.

a. Shelf Registration.

i. The Company shall (x) within 15 business days of delivery of a written request to register Registrable Stock (as defined below) by any holder of Registrable Stock, file with the Securities and Exchange Commission (the SEC) a Shelf Registration Statement (as defined below) relating to the offer and sale of the shares of Common Stock or other securities issued or issuable upon conversion of the Notes (the Registrable Stock) by the holders of Registrable Stock from time to time in accordance with the methods of distribution elected by such holders and set forth in such Shelf Registration Statement, and (y) use its best efforts to cause such Shelf Registration Statement to be declared effective under the Securities Act as promptly as practicable; provided that the holders of Registrable Stock may not request the

Company to file a Shelf Registration Statement unless and until (x) such holders have the right at such time to convert the Notes into Common Stock pursuant to Section 3(a)(x) of the Notes or (y) the Company has exercised its right to cause the Notes to convert into Common Stock pursuant to Section 3(a)(y) of the Notes. Register, registered and registration each refer to a registration of Registrable Stock effected by filing with the SEC a registration statement in compliance with the Securities Act and the declaration or ordering by the SEC of effectiveness of such registration statement. Shelf Registration means a registration effected pursuant to this Section 7. Shelf Registration Statement means a shelf registration statement of the Company filed with the SEC pursuant to the provisions of this Section 7 which covers some or all of the Registrable Stock, as applicable, on an appropriate form under Rule 415 under the Securities Act, or any similar rule that may be adopted by the SEC, amendments and supplements to such registration statement, including post-effective amendments, in each case including the prospectus contained therein, all exhibits thereto and all material incorporated by reference therein.

ii. The Company shall use its best efforts (x) to keep the Shelf Registration Statement continuously effective in order to permit the prospectus forming part thereof to be usable by the holders of Registrable Stock for a period equal to the longer of (1) three years and (2) the period any holder of Registrable Stock is subject to any limitations on the resale thereof under Rule 144, and (y) after the effectiveness of the Shelf Registration Statement, promptly upon the request of any holder of Registrable Stock, to take any action necessary to register the sale of any Registrable Stock of such holder and to identify such holder as a selling securityholder.

b. Registration Procedures. In connection with any Shelf Registration Statement, the Company shall:

i. prepare and file with the SEC a Shelf Registration Statement with respect to the Registrable Stock and use its best efforts to cause such Shelf Registration Statement to become and remain effective as provided in this Agreement;

ii. prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such Shelf Registration Statement effective and current and to comply with the provisions of the Securities Act with respect to the disposition of all shares covered by such Shelf Registration Statement, including such amendments and supplements as may be necessary to reflect the intended method of disposition from time to time of the prospective seller or sellers of such Registrable Stock;

iii. furnish to each selling holder of Registrable Stock such number of copies of a prospectus in conformity with the requirements of the Securities Act, and such other documents, as such holder may reasonably request in order to facilitate the public sale or other disposition of the Registrable Stock owned by such holder;

iv. use its best efforts to register or qualify the shares of Registrable Stock covered by such Shelf Registration Statement under such other securities or blue sky or other applicable laws of such jurisdiction within the United States as each prospective seller shall reasonably request, to enable such seller to consummate the public sale or other disposition in such jurisdictions of the shares of Registrable Stock owned by such seller; and

v. furnish to each prospective seller a signed counterpart, addressed to the prospective sellers, of (i) an opinion of counsel for the Company, dated the effective date of the Shelf Registration Statement, and (ii) a comfort letter (or, in the case of any such Person which does not satisfy the conditions for receipt of a comfort letter specified in Statement on Auditing Standards No. 72, an agreed upon procedures letter) signed by the independent auditors who have certified the Company s financial statements included in the Shelf Registration Statement, covering substantially the same matters with respect to the Shelf Registration Statement (and the prospectus included therein) and (in the case of the comfort or agreed upon procedures letter) with respect to events subsequent to the date of the financial statements, as are customarily covered (at the time of such registration) in opinions of issuer s counsel and in comfort letters delivered to the underwriters in underwritten public offerings of securities (with, in the case of an agreed upon procedures letter, such modifications or deletions as may be required under Statement on Auditing Standards No. 35).

c. Designation of Underwriter. In the case of any registration effected pursuant to this Section 7, a majority in interest of the holders of Registrable Stock shall have the right to designate the managing underwriter in any underwritten offering.

d. Cooperation by Prospective Sellers.

i. Each prospective seller of Registrable Stock, and each underwriter designated by each such seller, will furnish to the Company such information as the Company may reasonably require from such seller or underwriter in connection with the Shelf Registration Statement (and the prospectus included therein). No holder of Registrable Stock may participate in any offering unless such Holder completes and executes all questionnaires, indemnities, underwriting agreements and other documents required in connection with the offering.

ii. Failure of a prospective seller of Registrable Stock to furnish the information and agreements described in this Agreement shall not affect the obligations of the Company under this Agreement to remaining sellers to furnish such information and agreements unless, in the reasonable opinion of counsel to the Company or the underwriters, such failure impairs or may impair the viability of the offering or the legality of the registration or the underlying offering.

iii. The holders holding shares of Registrable Stock included in the registration will not (until further notice by the Company) effect sales thereof (or deliver a prospectus to any purchaser) after receipt of telegraphic or written notice from the Company to suspend sales to permit the Company to correct or update a registration statement or prospectus. In connection with any offering each Holder who is a prospective seller, will not use any offering document, offering circular or other offering materials with respect to the offer or sale of Registrable Stock, other than the prospectuses provided by the Company and any documents incorporated by reference therein.

e. Expenses. All expenses incurred in complying with this Section 7, including, without limitation, all registration and filing fees (including all expenses incident to filing with the National Association of Securities Dealers, Inc.), fees and expenses of complying with securities and blue sky laws, printing expenses and fees and disbursements of counsel for the Company and one counsel for the holders of Registrable Stock, and of the independent certified public

accountants shall be paid by the Company; provided, however, that all underwriting discounts and selling commissions applicable to the Registrable Stock covered by registrations effected pursuant to this Section 7 shall not be borne by the Company but shall be borne by the seller or sellers.

f. Indemnification.

i. In the event of any registration of any Registrable Stock under the Securities Act pursuant to this Section 7 or registration or qualification of any Registrable Stock pursuant to this Section 7, the Company shall indemnify and hold harmless the seller of such shares, each underwriter of such shares, if any, each broker or any other person acting on behalf of such seller and each other person, if any, who controls any of the foregoing persons, within the meaning of the Securities Act, against any losses, claims, damages or liabilities, joint or several, to which any of the foregoing persons may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such Registrable Stock as registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or any document prepared or furnished by the Company incident to the registration or qualification of any Registrable Stock pursuant to this Section 7, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or, with respect to any prospectus, necessary to make the statements therein in light of the circumstances under which they were made, not misleading, or any violation by the Company of the Securities Act or state securities or blue sky laws applicable to the Company and relating to action or inaction required of the Company in connection with such registration or qualification under such state securities or blue sky laws; and shall reimburse such seller, such underwriter, broker or other person acting on behalf of such seller and each such controlling person for any legal or any other expenses reasonably incurred by any of them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be liable (i) in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the registration statement, the preliminary prospectus or prospectus or in any amendment or supplement thereof pursuant to this Section 7 in reliance upon and in conformity with written information furnished to the Company through an instrument duly executed by such seller or such underwriter specifically for use in the preparation thereof and (ii) to any broker or other person acting on behalf of such seller to the extent that any such loss, claim, damage or liability arises out of or is based upon any representation or other statement of such broker or other person that is not in conformity with the preliminary prospectus or prospectus.

ii. Before Registrable Stock held by a prospective seller shall be included in any registration pursuant to this Section 7, such prospective seller and any underwriter acting on its behalf shall have agreed to indemnify and hold harmless (in the same manner and to the same extent as set forth in (i) above) the Company, each director of the Company, each officer of the Company who shall sign such registration statement and any person who controls the Company within the meaning of the Securities Act, with respect to any untrue statement or omission from such registration statement, any preliminary prospectus or prospectus contained therein, or any amendment or supplement thereof, if such untrue statement or omission was made in reliance upon and in conformity with written information furnished to the Company through an

instrument duly executed by such seller or such underwriter, as the case may be, specifically for use in the preparation of such registration statement, preliminary prospectus, prospectus or amendment or supplement; provided that the maximum amount of liability in respect of such indemnification shall be limited, in the case of each prospective seller of Registrable Stock, to an amount equal to the net proceeds actually received by such prospective seller from the sale of Registrable Stock effected pursuant to such registration.

iii. Notwithstanding the foregoing provisions of this Section 7, if pursuant to an underwritten public offering of Common Stock, the Company, the selling shareholders and the underwriters enter into an underwriting or purchase agreement relating to such offering which contains provisions covering indemnification among the parties thereto in connection with such offering, the indemnification provisions of Section 7(f) shall be deemed inoperative for purposes of such offering.

iv. Each party entitled to indemnification under this Section 7(f) (the indemnified party) shall give notice to the party required to provide indemnification (the indemnifying party) promptly after such indemnified party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the indemnifying party (at its expense) to assume the defense of any claim or any litigation resulting therefrom, provided that counsel for the indemnifying party, who shall conduct the defense of such claim or litigation, shall be reasonably satisfactory to the indemnified party, and the indemnified party may participate in such defense, but only at such indemnified party s expense, and provided, further, that the omission by any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under this Section 7(f) except to the extent that the omission results in a failure of actual notice to the indemnifying party and such indemnifying party is damaged solely as a result of the failure to give notice. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

8. Covenants. The Company agrees that:

a. Information. The Company shall deliver to each Holder:

i. (A) as soon as available and in any event within 5 days after filing of each of the Company s Quarterly Reports on Form 10-Q and Current Reports on Form 8-K with the Commission, copies of each of such reports; and (B) as soon as available and in any event within 10 days after filing of each of the Company s Annual Reports on Form 10-K including copies of the Company s Annual Report to Shareholders and Proxy Statement with the Commission, copies of each of such reports;

ii. promptly upon the mailing thereof to the shareholders of the Company generally, copies of all information (other than as described in clause (i)) so mailed;

iii. simultaneously with the delivery of each set of financial statements referred to above, a certificate of the chief financial officer or the chief accounting officer of the Company stating whether any Event of Default, as defined in the Notes, or any condition or event which, with the giving of notice or lapse of time or both would, unless

cured or waived, become an Event of Default, exists on the date of such certificate and, if any Event of Default or any such condition or event then exists, setting forth the details thereof and the action which the Company is taking or proposes to take with respect thereto;

iv. if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any reportable event (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Company setting forth details as to such occurrence and action, if any, which the Company or applicable member of the ERISA Group is required or proposes to take; and

v. from time to time such additional information regarding the financial position or business of the Company and its Subsidiaries as any Holder may reasonably request (it being understood and agreed that no Holder shall be entitled to request any confidential or proprietary information of the Company and its Subsidiaries pursuant to this clause (v)).

b. Payment of Obligations. The Company will pay and discharge, and will cause each Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same; provided that the Holders hereby waive any default arising out of the Company s or any Subsidiary s failure to pay any Indebtedness described on Exhibit C to Schedule 3(n) of the Company Disclosure Letter, such waiver to be effective until the first to occur of (i) any holder of such Indebtedness either accelerates such Indebtedness or commences any enforcement action with respect thereto, (ii) any holder of Senior Indebtedness (as defined in the Notes) ceases to waive any default under such Senior Indebtedness arising out of such failure to pay any Indebtedness described on Exhibit C and (iii) the aggregate dollar amount of all such outstanding Indebtedness specified on Exhibit C (other than fees, interest or penalties thereon) increases above the level so specified.

c. Conduct of Business and Maintenance of Existence. The Company will continue, and will cause each Subsidiary to continue, to engage in business of the same general type as now conducted by the Company and its Subsidiaries, and will preserve, renew and keep in full force and

effect, and will cause each Subsidiary to preserve, renew and keep in full force and effect their respective corporate existence and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business, provided that nothing in this Section 8(c) shall prohibit (i) the merger of a Subsidiary into the Company or the merger or consolidation of a Subsidiary with or into another Person if the corporation surviving such consolidation or merger is a Subsidiary and if, in each case, after giving effect thereto, no Event of Default under the Notes and no event or condition which, with the giving of notice or lapse of time or both, would, unless cured or waived, become an Event of Default under the Notes, shall have occurred and be continuing or (ii) the termination of the corporate existence of any Subsidiary if the Company in good faith determines that such termination is in the best interest of the Company and is not materially disadvantageous to the Holders of the Notes.

d. Compliance with Laws. The Company will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, environmental laws and ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

e. Inspection of Property, Books and Records. The Company will keep, and will use its best efforts to cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Holder at such Holder s expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times, upon reasonable notice and as often as may reasonably be desired (it being understood and agreed that no Holder shall be entitled to request any confidential or proprietary information of the Company and its Subsidiaries pursuant to this subsection (e)).

f. Prohibited Transactions. Neither the Company nor any agent acting on its behalf will, directly or indirectly, sell or offer for sale or dispose of, or attempt or offer to dispose of, any of the Notes, Common Stock or any similar security of the Company to, or solicit any offers to buy any thereof from, or otherwise approach or negotiate in respect thereof with, any person or persons, so as to require registration of the Notes or the Reserved Shares under the Securities Act.

9. Survival of Representations, Warranties and Agreements Etc. All representations and warranties hereunder shall survive the Closing. All statements contained in any certificate or other instrument delivered by the Company or pursuant to this Agreement or in connection with the transactions contemplated by this Agreement shall constitute representations and warranties by the Company under this Agreement.

10. Miscellaneous.

a. Entire Agreement. This Agreement and the Schedules and Exhibits hereto contain the entire agreement between the Company and the Purchaser with respect to the transactions contemplated hereby and

supersede all prior agreements or understandings among the parties with respect thereto.

b. Headings. Descriptive headings are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

c. Notices. All notices or other communications provided for in this Agreement shall be in writing and shall be sent by confirmed telecopy (with an undertaking to provide a hard copy) or delivered by hand or sent by overnight courier service prepaid to the address specified below.

If to the Company:

System Software Associates, Inc.
500 W. Madison
32nd Floor
Chicago, Illinois 60661
Attention: Chief Executive Officer
Telecopy: 312-258-65604
with a copy to:
System Software Associates, Inc.
500 W. Madison
32nd Floor
Chicago, Illinois 60661
Attention: General Counsel
Telecopy: 312-474-7451

If to the Purchaser:

Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, New York 11788
Attention: President
Telecopy: 516-342-4866
with a copy to:
Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, New York 11788
Attention: General Counsel
Telecopy: 516-342-4866

or to such other address as the party to whom notice is to be given may have furnished to the other party in writing in accordance herewith.

d. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

e. Amendments. This Agreement shall not be altered or otherwise amended except pursuant to an instrument in writing signed by each of (i) the Company, (ii) the Purchaser so long as it holds any of the Notes or any of the Reserved Shares issued upon conversion thereof, and (iii) the holders of 51% of the aggregate principal amount of the Notes (or, if the Notes have been converted, the holders of 51% of the number of the Reserved Shares issued upon such conversion).

f. Assignment. This Agreement shall not be assignable by either party without the consent of the other party, except that it, or the rights under this Agreement, in whole or in part, may be assigned by the Purchaser to any party or parties who purchase the Note or Notes owned by the Purchaser (or, if the Notes have been converted, to any party or parties who purchase the Reserved Shares issued upon such conversion).

g. Expenses; Documentary Taxes; Indemnification.

(i) The Company shall pay (A) all out-of-pocket expenses of each Holder, including fees and disbursements of counsel for such Holder, in connection with the preparation of this Agreement, (B) all out-of-pocket expenses of each Holder, including fees and disbursements of counsel for such Holder, in connection with any waiver or consent under this Agreement or under the Notes or any amendment of this Agreement or the Notes or any default or alleged default under this Agreement or under the Notes and (C) if an Event of Default, as defined in the Notes, occurs, all out-of-pocket expenses incurred by each Holder, including fees and disbursements of counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom. The Company shall indemnify each Holder against any transfer taxes, documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of this Agreement or the Notes.

(ii) The Company hereby indemnifies and holds each Holder and its affiliates, shareholders, officers, directors, employees and agents (collectively, the Indemnified Parties) harmless from and against any and all actions, causes of action, suits, losses, costs, claims, liabilities and damages, and expenses incurred in connection therewith (irrespective of whether any such Indemnified Party is a party to the action for which indemnification hereunder is sought), including attorneys and other experts fees and disbursements (collectively, the Indemnified Liabilities), incurred by the Indemnified Parties or any of them as a result of, or arising out of, or relating to (A) any transaction financed or to be financed in whole or in part, directly or indirectly, with the proceeds from the sale of the Notes; or (B) the entering into and performance of this Agreement and any other document delivered in connection herewith by any of the Indemnified Parties.

An Indemnified Party shall be entitled to be represented by the counsel of such Indemnified Party s choice in connection with the defense (including any investigation) of any third party claim against or involving such Indemnified Party for which indemnification is sought under this Agreement and, on demand (and as incurred), the Company shall pay, or reimburse such Indemnified Party for, the fees and expenses of such counsel and all other expenses relating to such defense. This indemnity shall survive repayment or transfer of the Notes, the conversion of any Note into Reserved Shares or the transfer of any Reserved Shares. The Company s obligation to any Indemnified Party under this indemnity shall be without regard to fault on the part of the Company with respect to the violation or condition which results in liability of any Indemnified Party. If and to the extent that the foregoing undertaking is determined to be unenforceable for any reason, the Company hereby agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

h. CHOICE OF LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

i. CONSENT TO JURISDICTION. EACH OF THE HOLDERS AND THE CORPORATION HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH OF THE HOLDERS AND THE CORPORATION IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH OF THE HOLDERS AND THE CORPORATION CONSENTS TO THE SERVICE OF PROCESS IN ANY SUCH PROCEEDING BY THE DELIVERY (BY OVERNIGHT COURIER) TO IT AT ITS ADDRESS SPECIFIED IN SECTION 9(c) OF THIS AGREEMENT (OR IN THE CASE OF A HOLDER OTHER THAN THE PURCHASER, TO ITS ADDRESS AS IT APPEARS IN THE REGISTER MAINTAINED BY THE CORPORATION). EACH OF THE HOLDERS AND THE CORPORATION FURTHER AGREES THAT A FINAL JUDGMENT IN ANY SUCH PROCEEDING SHALL BE CONCLUSIVE AND BINDING AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

j. WAIVER OF JURY TRIAL. THE CORPORATION AND EACH OF THE HOLDERS HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, this Note Purchase Agreement has been duly executed by an officer of each of the parties hereto thereunto duly authorized all on the date first above written.

SYSTEM SOFTWARE ASSOCIATES, INC.

By: /s/ Roger E. Covey

Name: Roger E. Covey
Title: Chief Executive Officer

COMPUTER ASSOCIATES INTERNATIONAL, INC.

By: /s/ Charles P. McWade

Name: Charles P. McWade
Title: Senior Vice President - Finance

Exhibit 2

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER THE SECURITIES ACT. ADDITIONALLY, THE TRANSFER OF THIS NOTE IS SUBJECT TO THE CONDITIONS SPECIFIED IN SECTION 6 OF THE NOTE PURCHASE AGREEMENT PURSUANT TO WHICH THIS NOTE WAS PURCHASED AND NO TRANSFER OF THIS NOTE SHALL BE VALID OR EFFECTIVE UNTIL SUCH CONDITIONS HAVE BEEN FULFILLED.

Floating Rate Convertible Note Due 2000

March 27, 1997

SYSTEM SOFTWARE ASSOCIATES, INC., a Delaware corporation (the Company), for value received, hereby promises to pay to the order of Computer Associates International, Inc. or registered assigns, the sum of the principal amount of

U.S. $12,000,000

on March 31, 2000 (or, if such day is not a business day (as defined in Section 9 below), the next succeeding business day) (the Maturity Date). The outstanding principal amount of this Note shall bear interest from and including the date hereof (the Closing Date) to but excluding the Maturity Date (or, if a Conversion Notice (as defined below) has been delivered pursuant to Section 3(a), the Conversion Date (as defined below)), for each Interest Period (as defined below) applicable thereto, at a rate per annum (calculated on the basis of the actual number of days elapsed over a year of 360 days) equal to the Applicable Rate for such Interest Period. Applicable Rate means, for any day during any Interest Period, (x) the Base Rate from time to time in effect plus (y) 1.00%. 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 Bank of America National Trust and Savings Association or its successor, in San Francisco, California, as its reference rate. 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 Holder 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 Holder.

Interest shall be paid monthly in arrears on each Interest Payment Date by wire transfer to the account of each holder of a Note (a Holder) specified in writing to the Company. Interest Period means each period beginning on and including an Interest Payment Date (or in

the case of the first Interest Period, the Closing Date) and ending on but excluding the immediately succeeding Interest Payment Date (or in the case of the last Interest Payment Date, the Maturity Date (or, if a Conversion Notice has been delivered pursuant to Section 3(a), the Conversion Date)). Interest Payment Date means the last business day of each calendar month commencing on April 30, 1997.

The outstanding principal amount of this Note (together with accrued interest thereon) shall be payable to the Holder on the Maturity Date in lawful money of the United States by wire transfer of immediately available funds to such account as the Holder shall specify in writing to the Company.

SECTION 1. The Notes. This Note is one of the Notes of the Company which are being issued in the aggregate principal amount of $12,000,000 and are designated as Floating Rate Convertible Notes Due 2000 (the Notes). This Note was issued pursuant to the terms of a Note Purchase Agreement, dated as of March 27, 1997 (the Purchase Agreement), between the Company and Computer Associates International, Inc. (the Purchaser).

SECTION 2. Redemption. (a) Subject to Section 3, the Notes may

be redeemed at the option of the Company in whole (but not in part), at any time prior to the earlier of (i) the Maturity Date or (ii) the Company s receipt, or transmission, as the case may be, of a Conversion Notice (as defined below). The redemption price (Redemption Price) shall be equal to 100% percent of the principal amount, together with accrued interest to the Redemption Date (as defined below).

(b) Notices to redeem the Notes shall be given to Holders in writing mailed, by overnight courier, to each Holder at its address as it appears in the register maintained by the Company, such mailing to be not more than 60 days nor less than 30 days prior to the date fixed for redemption. Neither the failure to give notice nor any defect in any notice given to any particular Holder of a Note shall affect the sufficiency of any notice with respect to other Notes. Notices to redeem Notes shall specify the date fixed for redemption (the Redemption Date), the Redemption Price, the place or places of payment, that payment will be made upon presentation and surrender of the Notes, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that on and after said date interest thereon will cease to accrue.

(c) If notice of redemption has been given in the manner set forth in this Section, upon presentation and surrender of each Note at the place or places specified in such notice, such Note shall be paid and redeemed by the Company by payment of the Redemption Price therefor together with accrued interest thereon in lawful money of the United States. Such payment shall be made to the Holder of such Note by wire transfer of immediately available funds to such account as such Holder shall specify in writing to the Company. If monies for the redemption of the Notes shall have been available for redemption on the Redemption Date, the Notes shall cease to bear interest, and the only right of the Holders of such Notes shall be to receive payment of the Redemption Price together with accrued interest to the Redemption Date.

SECTION 3. Conversion. (a) At the option of (x) the Holder, at any time after the first anniversary of the Closing Date or any time prior to such first anniversary following either the Company s issuance of a notice to redeem the Notes pursuant to Section 2 or the occurrence and continuance of an Event of Default (as defined below) or (y) the Company, if the closing price of the Common Stock, par value $.0033 per share (the Common Stock), of the Company, shall be equal to or in

excess of $20.00 per share for any twenty Trading Days (as defined below) in any thirty Trading Day period, the Notes, in whole or in part, may be converted on the Conversion Date (as defined below) at the principal amount thereof, into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100 of a share) of Common Stock, including the associated Rights (as defined in the Note Purchase Agreement), at the Conversion Price (as defined below), in effect at the time of conversion; provided that, for the Company to exercise the right specified in clause (y) above, the Company must issue a Conversion Notice (as defined below) within twenty business days of the end of any such thirty Trading Day period. In the event that a Note is called for redemption pursuant to Section 2, such conversion right in respect of the Note shall expire at the close of business on the Redemption Date, unless the Company fails to make the payment due upon redemption. The price at which the number of shares of Common Stock to be delivered shall be determined upon conversion shall be $3.33 per share of Common Stock (the Conversion Price). The Conversion Price shall be adjusted in certain instances as provided in paragraph (d) of this Section 3.

(b) If either the Holder or the Company elects to convert the Notes, the Holder or the Company, as the case may be, shall provide written notice (the Conversion Notice) to the Company (at the Company s address) or the Holders (to each Holder s address as it appears on the register), as applicable, which states that such party elects to convert such Note. In the event that the Company elects to convert the Notes, the Conversion Notice shall include a certification by the Company that each of the conditions set forth in Section 3(f) will be satisfied as of the Conversion Date. In order to exchange the securities, the Holder shall surrender the Notes, duly endorsed or assigned to the Company or in blank. If the Holder elects to convert the Notes, upon notice to the Company thereof, the Company shall use its best efforts to cause the conditions set forth in Section 3(f)(ii) through (v) to be satisfied as promptly as possible thereafter. Each conversion shall be deemed to have been effected immediately prior to the close of business on the date all of the conditions set forth in Section 3(f) have been satisfied or waived by the Holder (the Conversion Date). If such day is not a business day, and a day on which the principal national securities exchange or market quotation system on which the Common Stock is then listed or admitted for trading is open (a Trading Day), then such conversion will be deemed to have been effected on the next succeeding Trading Day. As promptly as practicable on or after the Conversion Date, the Company shall issue and deliver the certificates representing the number of full shares of Common Stock, including the associated Rights, issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 3(c).

(c) No fractional shares of Common Stock shall be issued upon conversion of Notes. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Note, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per share of Common Stock at the close of business on the Conversion Date.

(d) The Conversion Price shall be subject to the following adjustments:

(i) if, on any Conversion Date, 80% of the closing price on the trading day immediately preceding the Conversion Date is less than $3.33, then the Conversion Price shall be reduced to equal 80% of such closing price;

(ii) in case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be

proportionately reduced, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the Conversion Price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective;

(iii) in case the Company shall pay or make a dividend or other distribution on any class of capital stock of the Company in Common Stock, the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination;

(iv) in case the Company shall issue rights or warrants to all holders of its Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the Conversion Price, the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such rights or warrants shall be adjusted to such subscription or purchase price, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination;

(v) in case the Company shall issue Common Stock (other than shares of Common Stock issued upon exercise of rights, options and warrants outstanding as of the date hereof), or rights, options or warrants convertible into, or exchangeable or exercisable for, Common Stock to any third party, or shall reprice or adjust the conversion, exchange or exercise price of rights, options or warrants outstanding as of the date hereof, at or to a price per share of Common Stock less than the Conversion Price, the Conversion Price in effect at the opening of business on the day following the date of such issuance, repricing or adjustment shall be adjusted to such issue, conversion, exchange or exercise price or, in the case of a repricing or adjustment, such conversion, exchange or exercise price as so adjusted, such reduction to become effective immediately after the opening of business on the day following the date of such issuance, repricing or adjustment, as the case may be;

(vi) in case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness or assets (including securities, but excluding any rights or warrants referred to in clause (iv) of this Section, any dividend or distribution paid in cash out of the retained earnings of the Company and any dividend or distribution referred to in clause (iii) of this Section), the Conversion Price in effect at the opening of business on the date fixed for the determination of stockholders entitled to receive such distribution shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the Conversion Price on the

date fixed for such determination less the then fair market value of the portion of the assets or evidences of indebtedness so distributed applicable to one share of Common Stock and the denominator shall be such Conversion Price, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for such determination; and

(vii) the reclassification of Common Stock into securities including other than Common Stock shall be deemed to involve (A) a distribution of such securities other than Common Stock to all holders of Common Stock (and the effective date of such reclassification shall be deemed to be the date fixed for the determination of stockholders entitled to receive such distribution and the date fixed for such determination within the meaning of clause (vi) of this Section), and (B) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be the day upon which such subdivision becomes effective or the day upon which such combination becomes effective, as the case may be, and the day upon which such subdivision or combination becomes effective within the meaning of clause (ii) of this Section).

(e)Whenever the Conversion Price is adjusted pursuant to Section 3(d):

(i) the Company shall compute the adjusted Conversion Price and shall prepare a certificate signed by the Company setting forth the adjusted Conversion Price showing in reasonable detail the facts upon which such adjustment is based; and

(ii) a notice stating that the Conversion Price has been adjusted and setting forth the adjusted Conversion Price shall forthwith be required, and as soon as practicable after it is required (together with a copy of the certificate referred to in clause (i) above), such notice shall be mailed by the Company to all Holders.

(f) The Company s right to convert the Notes shall be subject to satisfaction of each of the following conditions:

(i) no Event of Default (as defined below) and no condition or event which, with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default, shall have occurred;

(ii) consummation of the conversion shall not result in a violation of any law, regulation, judgment, injunction, order or decree applicable to the Company or any Holder;

(iii) all Common Stock held by any Holder as of the Conversion Date and to be held by such Holder as a result of the conversion shall not, on the Conversion Date or thereafter, be subject to any limitation or restriction on such Holder s ability or right to hold, vote, transfer, dispose or take any other action with respect to such Common Stock (other than any such limitation or restriction arising as a result of the requirements of the Securities Act of 1933, as amended, or as a result of agreements of such Holder with third parties);

(iv) all filings with, and all approvals, consents and actions by any Person necessary to exempt any Reserved Shares (as defined in the Purchase Agreement) issued upon conversion of the Notes held by such Holder as of the Conversion Date and to be held by such Holder as a result of the conversion and any such Holder with respect to all such shares from, and to exclude such Reserved Shares from the calculation of aggregate beneficial ownership of Common Stock of such Holder for the purposes of, (x) the provisions of the Rights Agreement (as defined in the Purchase Agreement) or from any similar agreement or plan that the Company may have and (y) any applicable anti-takeover statute or regulation, shall have been obtained and taken; and

(v) all filings with, and all approvals, consents and actions by, any Person necessary to consummate the conversion (including, without limitation, any approval required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) shall have been made and obtained.

The term Person shall mean an individual, a company, a partnership, a limited liability company, a trust, an unincorporated association or any other entity or organization, including, without limitation, a government or political subdivision or an agency, instrumentality or official thereof.

The conversion of the Notes by the Company pursuant to this Section 3 shall be deemed to be a representation and warranty by the Company that all of the foregoing conditions are satisfied on and as of the Conversion Date.

(g) Notwithstanding anything to the contrary set forth in the Notes, unless and until the Company s stockholders have approved the transactions contemplated by the Purchase Agreement and the Notes, the Company shall not be obligated to issue more than 8,480,151 shares of Common Stock (as adjusted to reflect stock dividends, stock splits, recapitalization, reorganization, stock exchange or other combination) (the Nasdaq Limit) upon conversion of the Notes. If, on any Conversion Date, the Notes are converted into a number of shares of Common Stock that is less than the number of shares that the Notes would have been convertible into had the limitation on the issuance of shares set forth in the immediately preceding sentence not been in effect, the Company shall, on the Conversion Date, pay to the Holder by wire transfer of immediately available funds an amount equal to the sum of (x) the product of (1) the excess of (A) such number of shares that would have been issued upon such conversion had such limitation not been in effect over (B) such number of shares that were being issued upon such conversion and (2) the closing price of the Common Stock on the trading day immediately preceding the Conversion Date and (y) the Make-Whole Amount; provided that the amount payable pursuant to this sentence shall in no event exceed the maximum amount allowable under applicable law. Make-Whole Amount means an amount equal to the excess of (x) the amount of interest that would have been due on the outstanding principal amount of the Notes from March 27, 1997 through and including the Conversion Date had the Applicable Rate been equal to 21% over (y) the amount of interest that was actually due on the outstanding principal amount of the Notes for such period.

(h) At the next annual meeting of the Company s stockholders following the Company s 1997 annual stockholders meeting, which the Company shall cause to occur no later than May 31, 1998, the Company shall use its best efforts to obtain the necessary approvals of its stockholders of the transactions contemplated by the Purchase Agreement and the Notes in order to satisfy the applicable rules of the Nasdaq

National Market with respect to issuing more shares than the Nasdaq Limit upon conversion of the Notes.

(i) The Company shall at all times reserve and keep available, free from any pre-emptive rights, out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of Notes, the full number of shares of Common Stock then issuable upon the conversion of all outstanding Notes (but in no event less than 8,480,151 shares).

(j) The Company will pay any and all transfer, documentary and similar taxes or charges that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Notes pursuant hereto. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Note or Notes to be converted, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Company the amount of any such tax, or has established to the satisfaction of the Company that such tax has been paid.

(k) The Company covenants that all shares of Common Stock which may be issued upon conversion of Notes will upon issue be fully paid and nonassessable and, except as provided in Section 3(j), the Company will pay all taxes, liens and charges with respect to the issue thereof.

(l) All Notes that have been converted shall be promptly delivered to the Company to be canceled by the Company.

SECTION 4. Exchange or Replacement of Notes. (a) The Holder of any Note, at such Holder s option may in person or by duly authorized attorney surrender such Note for exchange, at the office or agency of the Company maintained pursuant to Section 6(a) of this Note, and receive in exchange therefor a new Note in the same principal amount as the outstanding principal amount of the Note so surrendered and bearing interest at the same annual rate as the Note so surrendered, each such new Note to be dated as of the most recent Interest Payment Date on the Note so surrendered and to be in such outstanding principal amount and payable to such person or persons, or order, as such Holder may designate in writing; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any new Note in a name other than that of the Holder of the Note surrendered in exchange therefor; provided, further, however, that the Company shall not be required to so register the transfer unless the conditions for transfer in the Purchase Agreement have been satisfied. The Holder shall give to the Company 10 days prior written notice of such Holder s intention to make such exchange.

(b) Upon receipt by the Company of evidence satisfactory to it of the loss, theft or destruction, mutilation of any Note and (in case of loss, theft or destruction) of indemnity satisfactory to it, and upon surrender and cancellation of such Note, if mutilated, the Company will execute and deliver in lieu of such Note a new Note of like tenor. Any such new Note shall be dated as of the most recent Interest Payment Date on the Note in lieu of which such new Note is executed and delivered. The term outstanding when used in this Note with reference to the Notes as of any particular time shall not include (i) any Note in lieu of which a new Note has been executed and delivered by the Company in accordance with the provisions of this Section and (ii) any Note held or beneficially owned by the Company or any of its affiliates.

SECTION 5. Amendments and Waivers. With the written consent of the Holders of 51% of the aggregate outstanding principal amount of the Notes at the time outstanding and the written consent of the Purchaser so long as it holds any of the Notes, any covenant, agreement or condition contained in the Notes may be waived (either generally or in a particular instance and either retroactively or prospectively), or such Holders, the Purchaser (so long as it holds any of the Notes) and the Company may from time to time enter into agreements for the purpose of amending any covenant, agreement or condition of the Notes or changing in any manner the rights of the holders of the Notes or the Company; provided, however, that:

(i) no such amendment or waiver shall change the Maturity Date of this Note or reduce the rate or extend the time of payment of interest hereon, or reduce the amount of the payment of interest hereon, or reduce the amount of the principal hereof, or modify any of the provisions of this Note with respect to the payment hereof, or change the conditions to conversion set forth in Section 4(f), without in any such case the consent of the Holder of this outstanding Note;

(ii) no such amendment or waiver with respect to the provisions of Section 8 shall be effective without the consent of the holders of Senior Indebtedness; and

(iii) no such waiver shall extend or affect any obligation not expressly waived or impair any right consequent thereon.

Any such amendment or waiver shall be binding upon each future Holder of this Note and upon the Company, whether or not such Note shall have been marked to indicate such amendment or waiver, but any Note issued thereafter shall bear a notation referring to any such amendment or continuing waiver.

SECTION 6. Covenants.

(a) The Company shall maintain an office where notices, presentations and demands to or upon the Company in respect of Notes, including those relative to conversion of the Notes, may be given.

(b) The Company shall keep at such office a register at its expense, which shall provide for the registration and transfer of Notes. The Company and any agent of the Company may treat the person in whose name any Note is registered as the Holder of such Note for the purpose of receiving payment of the principal and interest on such Note and for all other purposes, whether or not such Note be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

(c) The Company agrees that so long as any of the Notes are outstanding, it shall not directly or indirectly (i) declare or pay any dividend (other than a stock dividend) or make any distribution on its capital stock or to the holders of its capital stock, (ii) purchase, redeem or otherwise acquire or retire for value, or permit any of the Subsidiaries to, directly or indirectly, purchase, redeem or otherwise acquire or retire for value, any such capital stock (or options, warrants or other rights to acquire such capital stock), (iii) except as provided under this Note, redeem, repurchase, defease (including, but not limited to, in-substance or legal defeasance) or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled repayment or scheduled sinking fund payment, Indebtedness of the Company

which is pari passu or subordinate (whether pursuant to its terms or by operation of law) in right of payment to the Notes and which is scheduled to mature (after giving effect to any and all options to extend the maturity thereof) on or after the maturity date of such Notes (after giving effect to any and all options to extend the maturity thereof).

(d) The Company agrees that as long as any of the Notes are outstanding, it shall not (i) consolidate with or merge into any other Person or (ii) sell, lease or otherwise transfer, directly or indirectly, all or any substantial part of the assets of the Company and the Subsidiaries, taken as a whole, to any other Person unless (A) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or any substantial part of the assets of the Company and the Subsidiaries as an entirety, as the case may be, shall be a solvent corporation organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation, such corporation shall have executed and delivered to each holder of any Notes its assumption of the due and punctual performance and observance of each covenant and condition of the Purchase Agreement and the Notes and (B) immediately after giving effect to such transaction, no Event of Default and no condition or event which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default, shall have occurred and be continuing.

(e) The Company agrees that so long as any of the Notes are outstanding, neither the Company nor any of the Subsidiaries will in any manner, directly or indirectly, incur or be liable in respect of any Indebtedness senior to or ranking pari passu with the Notes, except:

(i) Indebtedness of the Company represented by the Notes;

(ii) Indebtedness of the Company existing as of March 27, 1997 as set forth on Schedule 3(b)(iii) of the Company Disclosure Letter (as defined in the Purchase Agreement);

(iii) other Indebtedness not exceeding $2,000,000 in aggregate principal amount at any time outstanding; and

(iv) extensions, refinancings, amendments and modifications of any Indebtedness described in clause (ii) above, provided that the principal amount of such Indebtedness is not increased.

Indebtedness of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, banker s acceptances, surety or other bonds and similar instruments, (vi) all obligations of such Person to purchase securities (or other property) which arise out of or in connection with the sale of the same or substantially similar securities or property, (vii) all Indebtedness of others secured by a Lien (as defined below) on any asset of such Person, whether or not such Indebtedness is assumed by

such Person, and (viii) all Indebtedness of others guaranteed by such Person or for which such Person is otherwise contingently liable.

(f) The Company agrees that so long as any of the Notes are outstanding, neither the Company nor any of the Subsidiaries shall create, incur, assume or suffer to exist any mortgage, deed of trust, security interest, lien or other encumbrance (each, a Lien) upon any of its properties or assets, whether now owned or hereafter acquired, except Liens in favor of holders of the Notes and Permitted Liens.

Permitted Liens shall mean: (i) liens for taxes not yet payable or being contested in good faith and by appropriate proceedings diligently pursued, provided that the reserve or other appropriate provision, if any, as shall be required by generally accepted accounting principles shall have been made therefor; (ii) deposits or pledges to secure the payment of workmen s compensation, unemployment insurance, old age pensions or other social security benefits or obligations; (iii) deposits or pledges to secure the performance of bids, tenders, contracts, leases, public or statutory obligations, surety or appeal bonds, or other deposits or pledges for purposes of a like general nature made or given in the ordinary course of business and not in connection with the borrowing of money; (iv) Liens in favor of holders of Indebtedness permitted under Section 6(e); (v) such utility, access and other easements, rights of way, restrictions, exceptions, minor defects or irregularities in or clouds on title or encumbrances not arising out of the borrowing of money or the securing of advances or credit, and which will not interfere with or impair in any respect the utility, operation or value of any properties of the Company; (vi) liens of mechanics, warehousemen, carriers or other similar statutory liens incurred in good faith in the ordinary course of business; (vii) liens existing as of March 27, 1997 on properties and assets of the Company or any Subsidiary as set forth in Schedule 3(b)(iii) of the Company Disclosure Letter; and (viii) other liens incidental to the conduct of the Company s business or the ownership of its property and assets (including landlord liens) that (1) are not incurred in connection with the borrowing of money or the obtaining of advances or credit or the guaranteeing of the obligations of another Person, (2) do not in the aggregate materially detract from the value of the Company s properties or assets or materially impair the Company s ability to use such property or assets in the operation of its business and (3) do not secure any obligation in an amount exceeding $250,000.

(g) The Company shall deliver (by overnight courier) to each Holder promptly following the occurrence thereof written notice of (i) an Event of Default or of any condition or event which, after notice, lapse of time, or both, could constitute an Event of Default, and (ii) the commencement of any action, suit, claim, investigation or legal or administrative or arbitration proceeding which could have a material adverse affect on the Company or any of the Subsidiaries.

SECTION 7. Events of Default.

(a) The following shall constitute an Event of Default under the Notes:

(i) the Company shall fail to pay when due any principal of or interest on any Note or any other amount payable under the Notes or the Purchase Agreement;

(ii) the Company shall fail to observe or perform any covenant contained in Section 6(c), 6(d), 6(e), or 6(f);

(iii) the Company shall fail to observe or perform any covenant or agreement contained in the Notes or the Purchase Agreement (other than those covered by clause (i) or (ii) above) for 15 days after written notice thereof has been given to the Company;

(iv) any representation, warranty, certification or statement made by the Company in the Purchase Agreement or in the Notes or in any certificate, financial statement or other document delivered pursuant to the Purchase Agreement or the Notes shall prove to have been incorrect in any material respect when made;

(v) the Company or any of its subsidiaries shall fail to make any payment in respect of any Material Indebtedness (as defined below) when due or within any applicable grace period;

(vi) any event or condition shall occur which (A) results in the acceleration of the maturity of any Material Indebtedness or (B) enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Indebtedness or any Person acting on such holder s behalf to accelerate the maturity thereof;

(vii) the Company or any of its subsidiaries shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(viii) an involuntary case or other proceeding shall be commenced against the Company or any of its subsidiaries seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Company or any of its subsidiaries under the federal bankruptcy laws as now or hereafter in effect;

(ix) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $100,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c) (5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more members of the ERISA Group to incur a current payment obligation in excess of $200,000;

(x) a judgment or order for the payment of money in excess of $1,000,000 shall be rendered against the Company or any of its subsidiaries and such judgment or order shall continue unsatisfied and unstayed for a period of 30 business days; or

(xi) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended) (other than the Purchaser and its affiliates) after the date hereof shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under said Act) of 15% or more of the outstanding shares of common stock of the Company; or individuals who were directors of the Company as of the date hereof (together with any new director whose election by the Company s stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination was previously so approved) shall cease for any reason to constitute a majority of the board of directors of the Company.

For purposes of this Section, Material Indebtedness means Indebtedness (other than the Notes) of the Company or one or more of any Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal amount exceeding $750,000; provided that such term shall not include the Indebtedness described on Exhibit C to Schedule 3(n) of the Company Disclosure Letter for so long as none of the following has occurred: (i) any holder of such Indebtedness shall have either accelerated such Indebtedness or commenced any enforcement action with respect thereto, (ii) any holder of Senior Indebtedness shall have ceased to waive any default under such Senior Indebtedness arising out of such failure to pay any Indebtedness described on Exhibit C to Schedule 3(n) and (iii) the aggregate dollar amount of all such outstanding Indebtedness specified on Exhibit C to Schedule 3(n) (other than fees, interest or penalties thereon) shall have increased above the level so specified. As used herein, the terms ERISA, ERISA Group, Material Plan, Multiemployer Plan and PBGC have the meanings set forth in the Purchase Agreement.

(b) In case of the happening of an Event of Default, then, and in every such happening and at any time thereafter during the continuance of such Event of Default, the Holders of at least 51% in interest of Notes at the time outstanding may, by written notice to the Company, declare the Notes to be forthwith due and payable, whereupon the Notes shall become forthwith due and payable, both as to the outstanding principal amount thereof and accrued interest thereon, without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived, anything contained herein or therein to the contrary notwithstanding; provided that in the case of any of the Events of Default specified in Section 7(a)(vii) or 7(a)(viii) above with respect to the Company, without any notice to the Company or any other act by the Holders, the Notes shall become forthwith due and payable, both as to the outstanding principal amount thereof and accrued interest thereon, without presentment, demand, protest, or other notice of any kind, all of which are hereby expressly waived, anything contained herein or therein to the contrary notwithstanding.

(c) In case an Event of Default shall have occurred and be continuing, then, (i) the Holders of at least 51% in interest of the Notes at the time outstanding may proceed to protect and enforce such Holders rights either by suit in equity and/or by action at law, whether for the specific performance of any covenant or agreement contained in the Purchase Agreement or the Notes or in aid of the

exercise of any power granted in the Purchase Agreement or in the Notes, or proceed to enforce the payment of the Notes or to enforce any other legal or equitable right of the Holders of the Notes and (ii) the interest rate per annum with respect to any Note shall, for each day that such Event of Default exists, be automatically increased to a rate per annum equal to the sum of (A) 3% plus (B) the Applicable Rate for such day. Any overdue principal of or interest on this Note and any overdue amount payable hereunder or under the Purchase Agreement shall bear interest, payable on demand, and in lawful money of the United States, for each day until paid at the rate per annum specified in clause (ii) of the immediately preceding sentence. No remedy herein conferred hereunder is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or not or hereafter existing at law or in equity or by statute or otherwise. No course of dealing between the Company or any of its subsidiaries and any Holder of Notes or any delay on the part of any Holder of Notes in exercising any rights hereunder shall operate as a waiver of any rights of any such person hereunder or under the Purchase Agreement.

SECTION 8. Subordination. (a) The Company, for itself, its successors and assigns, covenants and agrees, and each Holder by its acceptance hereof likewise covenants and agrees, that each Note shall be subordinated, to the extent set forth below, to the prior payment in full of all Senior Indebtedness (as hereinafter defined).

(b) During the period referred to in Section 8(g), the Company shall not make or agree to make, and the Holder will not, demand, sue for, take, or retain, any direct or indirect payment (in cash, property, securities, by set-off or otherwise) on account of the principal of or interest on this Note, provided, however, that the Company may pay and the Holder may demand, sue for, take and retain any payments of interest and principal, including, without limitation, payment upon the Company s right to redeem under Section 2, under the terms and conditions of the Notes made or due prior to the date on which the Holder shall have received written notice (by registered mail, overnight courier or confirmed facsimile) of any Subordination Event (as hereinafter defined). Nothing in this Section 8 shall be deemed to prevent the accrual of interest on outstanding amounts, contemplated by the provisions of this Note including, without limitation, Section 7(c). Nothing in this Section 8 shall be deemed to prevent the Holder from demanding, suing for, taking or retaining any payments on account of this Note after the earlier of (i) the date on which the Senior Indebtedness has been paid in full and (ii) either (y) 180 days after the occurrence of an Event of Default (other than an Event of Default under Section 7(a)(iii) or an Event of Default under Section 7(a)(vi)(B)) shall have occurred or (y) 270 days after an Event of Default under Section 7(a)(iii) shall have occurred, provided that in all cases in which more than one Event of Default is outstanding at one time, the applicable period for purposes of this clause (ii) shall be the shortest period possible. Notwithstanding the preceding sentence, if at the time of receipt by the Holder of any payment on account of the Notes (w) any Senior Indebtedness shall have reached final maturity (whether by acceleration or otherwise), (x) the holders of such Senior Indebtedness referred to in clause (w) above shall have previously commenced proceedings to enforce payment of such Senior Indebtedness, (y) such proceedings shall be continuing and (z) prior to the Holder s receipt of such payment, the holders of such Senior Indebtedness shall have notified the Holder of the commencement of such proceedings, then no such payment shall be made on account of the Notes until the Senior Indebtedness described in clause (w) is paid in full and if any such payment is received by the Holder it shall be paid over to the holder of the Senior Indebtedness referred to in clause (w) above in an amount equal to the lesser of (A) the outstanding amount of such Senior Indebtedness and (B) the amount of such payment.

(c)(i) In the event of the occurrence of an event of default under any agreement that includes the Company s obligation to pay Senior

Indebtedness of the Company, the failure to repay any Senior Indebtedness upon the final maturity thereof or otherwise upon any payment or distribution, whether of cash, securities, or other property, to creditors of the Company in a total or partial liquidation, reorganization or dissolution of the Company, whether voluntary or involuntary, or in a bankruptcy, reorganization, insolvency, receivership, assignment for the benefit of creditors, marshaling of assets, or similar proceeding relating to the Company or its property (the existence of such acceleration, failure to pay upon final maturity or proceeding being herein referred to as a Subordination Event), then except as set forth in the proviso set forth in the first sentence of Section 8(b), all Senior Indebtedness (including any interest thereon accruing after the occurrence of any such event) shall first be paid in full before any payment or distribution, whether in cash, securities or other property other than Subordinated Securities (as hereinafter defined), shall be made to the Holder on account of this Note. Any payment or distribution, whether in cash, securities, or other property (other than the Subordinated Securities), which would otherwise (but for these subordination provisions) be payable or deliverable in respect of this Note shall be paid or delivered directly to the holder of the Senior Indebtedness until all Senior Indebtedness (including any interest thereon accruing after the occurrence of any such event) shall have been paid in full. Subordinated Securities shall mean any securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinate, at least to the extent provided in these subordination provisions with respect to the Notes, to the payment of all Senior Indebtedness at the time outstanding or to any securities issued in respect thereof under any such plan of reorganization or readjustment.

(ii) In the case of a happening of any Event of Default other than any of the Events of Default specified in Section 7(a)(vii) or 7(a)(viii), the Holders will not declare the Notes to be forthwith due and payable until the earliest of (x) the final maturity of any Senior Indebtedness, (y) the acceleration of the maturity of any Senior Indebtedness and (z) either (A) 180 days after the occurrence of an Event of Default (other than an Event of Default under Section 7(a)(iii) or an Event of Default under Section 7(a)(vi)(B)) shall have occurred or (B) 270 days after an Event of Default under Section 7(a)(iii) shall have occurred, provided that in all cases in which more than one Event of Default is outstanding at one time, the applicable period for purposes of this clause (z) shall be the shortest period possible.

(d) The provisions of this Section constitute a continuing subordination agreement, and the holder of Senior Indebtedness may continue, without notice to the Holder, to extend credit and make loans and advances to or for the account of the Company in reliance hereon; provided that such loans and advances are not prohibited by the provisions of Section 6(e). The holder of Senior Indebtedness may, at any time and from time to time, without consent or notice to the Holder, without incurring responsibility to the Holder, and without impairing or releasing any rights of the holder of Senior Indebtedness or any obligations of the Holder hereunder: (i) change the manner, place or terms of payment or change or extend the time of payment of, or renew or alter any of the Senior Indebtedness, or otherwise amend in any manner any of the Senior Indebtedness or any instrument evidencing the same or any agreement under which any of the Senior Indebtedness is outstanding; (ii) require such additional collateral from the Company or others to secure any of the Senior Indebtedness as it may deem necessary or desirable; (iii) sell, exchange, release or otherwise deal with any collateral for the Senior Indebtedness; (iv) release any person (other than the Company) liable in any manner for the payment or collection of any of the Senior Indebtedness; and (v) exercise or refrain from exercising any right against the Company and any other person.

(e) The holder of Senior Indebtedness shall not be prejudiced in the right to enforce subordination of the Notes by any act or failure to act on the part of the Company or of the holder of Senior Indebtedness.

(f) Except as otherwise expressly agreed to or undertaken by the Holder herein, nothing contained herein shall be deemed to impose upon the Holder any liability or obligation of the Company to the holder of Senior Indebtedness or shall be construed as implying any guarantee, warranty, undertaking or representation on the part of the Holder as to the discharge by the Company of any liability or obligation of the Company to the holder of Senior Indebtedness.

(g) As long as any Senior Indebtedness is outstanding, the Holder shall not commence, or join with any creditor other than the holder of Senior Indebtedness in commencing, any proceeding referred to in Section 8(b) (which shall be deemed to include an involuntary bankruptcy proceeding against the Company) until the earlier of (i) the date on which the Senior Indebtedness has been paid in full and (ii) either (x) 180 days after the occurrence of an Event of Default (other than an Event of Default under Section 7(a)(iii) or an Event of Default under Section 7(a)(vi)(B)) shall have occurred or (y) 270 days after an Event of Default under Section 7(a)(iii) shall have occurred, provided that in all cases in which more than one Event of Default is outstanding at one time, the applicable period for purposes of this clause (ii) shall be the shortest period possible.

(h) If the Holder receives any payment or distribution of any character in contravention of any of the terms hereof, it shall hold such payment or distribution in trust for the benefit of, and shall promptly pay over or deliver and transfer such payment or distribution to, the holder of the Senior Indebtedness.

(i) As used in this Section, Senior Indebtedness shall mean any Indebtedness (as hereinafter defined) of the Company, other than the Notes, permitted to be issued under Section 6(e), provided that in each case the terms of any such Senior Indebtedness do not prohibit (except on the terms set forth in this Note) the payment of principal of and interest on the Note (including, without limitation, upon redemption by the Company). Senior Indebtedness shall expressly include the Indebtedness under the Amended and Restated Secured Credit Agreement, dated as of February 28, 1997, among the Company, Bank of America National Trust and Savings Association, as agent, and other named institutions, as such agreement may be amended from time to time, except to the extent that the Indebtedness thereunder is increased in a manner not permitted under Section 6(e), and the Amended and Restated Note Agreement, dated as of February 28, 1997, among the Company, Principal Mutual Life Insurance Company and Massachusetts Mutual Life Insurance Company, as such agreement may be amended from time to time, except to the extent that the Indebtedness thereunder is increased in a manner not permitted under Section 6(e).

(j) The provisions of this Section are for the purpose of defining the relative rights of the holders of Senior Indebtedness on the one hand, and the Holders on the other hand, against the Company and its property, and nothing herein shall impair, as between the Company and the Holders, the obligation of the Company, which is unconditional and absolute, to pay to the Holder hereof the principal hereof and interest hereon in accordance with the terms and provisions hereof; nor shall anything herein prevent the Holders from exercising all remedies otherwise permitted by applicable law hereunder upon default under this Note, subject to the limitations set forth in Sections 8(b), 8(c)(ii) and 8(g) and to the rights, if any, under this Section, of holders of

Senior Indebtedness to receive cash, property, stock or obligations otherwise payable or deliverable to the Holders. Nothing in this Section 8 shall prohibit or in any way restrict the Holder s right, at any time (including without limitation following a Subordination Event), to the benefit of the provisions of Section 3.

(k) After the payment in full of all amounts payable with respect to Senior Indebtedness, the Holders shall be subrogated to the rights of the holders of Senior Indebtedness to receive payments or distributions of cash, property, stock or obligations applicable to Senior Indebtedness until the principal of and interest on this Note shall be paid in full, and, for the purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of any cash, property, stock, or obligations to which the Holders would be entitled except for the provisions of this Section, and no payment pursuant to the provisions of this Section to the holders of Senior Indebtedness by the Holders, shall, as between the Company, its creditors other than holders of Senior Indebtedness and the Holders, be deemed to be a payment by the Company to or on account of Senior Indebtedness. Nothing contained in this Note shall prevent the Company from making payments at any time of principal of or interest on the Notes except under the conditions described in Section 8(b) or 8(c).

SECTION 9. Extension of Maturity. Should the principal of or interest on this Note become due and payable on other than a business day, the maturity thereof shall be extended to the next succeeding business day, and interest shall be payable thereon at the rate per annum (calculated on the basis of the actual number of days elapsed over a year of 360 days) herein specified during such extension. The term business day shall mean any day that is not a Saturday, Sunday or legal holiday in the State of New York.

SECTION 10. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

SECTION 11. CONSENT TO JURISDICTION. EACH OF THE HOLDER AND THE COMPANY HEREBY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN NEW YORK CITY FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY. EACH OF THE HOLDER AND THE COMPANY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. EACH OF THE HOLDER AND THE COMPANY CONSENT TO THE SERVICE OF PROCESS IN ANY SUCH PROCEEDING BY THE DELIVERY (BY OVERNIGHT COURIER) TO IT AT ITS ADDRESS SPECIFIED IN SECTION 9(c) OF THE PURCHASE AGREEMENT (OR IN THE CASE OF A HOLDER OTHER THAN THE PURCHASER, TO ITS ADDRESS AS IT APPEARS IN THE REGISTER MAINTAINED BY THE COMPANY). EACH OF THE HOLDER AND THE COMPANY FURTHER AGREES THAT A FINAL JUDGMENT IN ANY SUCH PROCEEDING SHALL BE CONCLUSIVE AND BINDING AND MAY BE ENFORCED IN OTHER

JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW.

SECTION 12. WAIVER OF JURY TRIAL. EACH OF THE HOLDER AND THE COMPANY HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

SYSTEM SOFTWARE ASSOCIATES, INC.

By: /s/ Roger E. Covey

Name: Roger E. Covey
Title: Chief Executive Officer

[FORM OF TRANSFER NOTICE]

For value received _____ hereby sells, assigns and transfers unto _____, whose social security or other identifying number is _____ and whose address (including postal zip code) is _____ and does hereby irrevocably constitute and appoint _____ attorney to transfer the said Note of the within named Company with full power of substitution in the premises.

Dated: _____

_____
Transferor

NOTICE: The Signature to this Notice must correspond with the name as written upon the face of this Note and every particular, without alteration or enlargement or any change whatever.

Exhibit 3

September 9, 1997

Computer Associates International, Inc.
One Computer Associates Plaza
Islandia, New York 11788
Attention: President

Re: $12 Million Floating Rate Convertible Notes due 2000

Ladies and Gentlemen:

Reference is hereby made to the Note Purchase Agreement dated March 27, 1997 (the Purchase Agreement), between Computer Associates International, Inc. (CA) and System Software Associates, Inc. (SSA), and the $12 Million Floating Rate Convertible Note due 2000 issued by SSA to CA thereunder (the Note). Capitalized terms used but not otherwise defined in this letter shall have the meanings given to such terms in the Purchase Agreement. SSA and CA have discussed SSA s proposed underwritten public offering of Convertible Subordinated Notes (the Offering), as described in Amendment No. 3 to the Registration Statement on Form S-3 filed on September 3, 1997 (File No. 333-31271), as amended (the Registration Statement). In connection with the Offering, SSA has requested that CA execute, and CA is willing to execute, the lock-up agreement in the form of Exhibit A attached hereto (the Lock-up Agreement), in consideration of SSA s undertakings set forth herein. In consideration of the execution, delivery and performance of the Lock-up Agreement and the mutual agreements set forth herein, SSA and CA hereby agree as follows:

1. Notwithstanding anything to the contrary in the provisions of Section 7 of the Purchase Agreement, SSA shall prepare and file the Shelf Registration Statement covering all of the shares of Common Stock of the Company issuable upon the conversion of the Note (the Shares) on or prior to the fifth Business Day after the effective date of the Registration Statement relating to the Offering (the Offering Effective Date), and SSA shall use its best efforts to have the Shelf Registration Statement declared effective by the SEC within 45 days after the Offering Effective Date. Except as set forth herein, the registration of the Shares shall be in accordance with the Purchase Agreement.

2. SSA shall not be entitled to exercise its right to redeem the Notes under Section 2 thereof until the latter to occur of (a) the effective date of the registration of the Shares or (b) 90 days after the Offering Effective Date. Following the latter of the preceding periods, SSA s redemption right under Section 2 of the Note shall again be available in accordance with Section 2 of the Note.

3. Notwithstanding anything to the contrary in Section 3 of the Note, the Note shall be convertible into Shares at the option of CA upon the expiration of the initial 45 day Lock-up Period, as defined in the Lock-up Agreement.

4. CA hereby waives the restriction set forth in Section 6(c) of the Note with respect to the declaration and payment by SSA of dividends upon 10,000 shares of its Series A Preferred Stock in the amounts and at the times provided for in the Certificate of Designations for the Series A Preferred filed by SSA with the Secretary of State of the State of Delaware in the form filed as an exhibit to the Registration Statement.

Regards,

System Software Associates, Inc.

By:/s/ Joseph J. Skadra

Title: Vice President and
Chief Financial Officer

Accepted and Agreed:

Computer Associates International, Inc.

By:/s/ Charles P. McWade

Title: Senior Vice President - Finance

Exhibit 4

September 8, 1997

Hambrecht & Quist, LLC
Lazard Freres & Co., LLC
as Representative of the several
Underwriters to be named in the
within-mentioned Underwriting Agreement
c/o Hambrecht & Quist, LLC
One Bush Street
San Francisco, California 94104

Ladies and Gentlemen:

The undersigned understands that Hambrecht & Quist, LLC (H&Q) and Lazard Freres & Co., LLC, as representatives (Representatives) of the several underwriters (the Underwriters), propose to enter into an Underwriting Agreement (the Underwriting Agreement), with System Software Associates, Inc. (the Company), providing for the public offering by the Underwriters, including the Representatives, of Convertible Subordinated Notes of the Company (the Public Offering) as described in Amendment No. 3 to the Registration Statement on Form S-3 filed on September 3, 1997 (File No. 333-31271) (as amended, the Registration Statement).

In consideration of the Underwriters agreement to make the Public Offering and the Company s agreement (to be entered into concurrent herewith) to file within five business days after the effective date of the Registration Statement a registration statement with respect to the Shares (as defined below) which are underlying the $12 Million Floating Rate Convertible Note Due 2000 issued by the Company to Computer Associates International, Inc. dated March 27, 1997 (the Convertible Note), and to use its best efforts to cause such registration to be declared effective by no later than forty-five (45) days after the effective date of the Registration Statement, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the undersigned agrees that, with respect to the number of Shares and for the number of days immediately following the effective date of the Registration Statement specified in Schedule 1 hereto (the Lock-up Period), the undersigned will not, without the prior written consent of H&Q directly or indirectly:

(i) offer, sell, pledge, contract to sell (including any short sale whether or not against the box), grant or sell any option or other contract to purchase, purchase or otherwise acquire any option or other contract to sell or otherwise dispose of or transfer the shares of Common Stock of the Company (the Shares) issuable upon the conversion of the Convertible Note;

(ii) enter into any Hedging Transaction (as defined below) relating to any Shares; or

(iii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, the economic consequence of ownership of any Shares.

The foregoing restrictions are expressly intended to be applicable whether any such above-referenced transaction is settled by delivery of Shares or other securities, in cash or otherwise. In addition, such restrictions are expressly intended to preclude the undersigned from entering into any Hedging Transaction or other transaction during the Lock-up Period which is designed to or reasonably expected to lead to or result in a disposition of any Shares during the Lock-up Period, even if the Shares would be disposed of by someone other than the undersigned. Hedging Transaction means any short sale (whether or not against the box) or any purchase or other acquisition, sale or grant of any right (including, without limitation, any put or call option or any combination thereof) with respect to any security or other instrument (other than broad-based market basket or index) that includes, relates to or otherwise derives any significant part of its value from the Shares.

Without limiting the restrictions herein, any disposition by the

undersigned shall remain at all times subject to applicable securities laws, including, without limitation, the resale restrictions imposed by Rule 144 promulgated under the Securities Act.

The undersigned agrees that the Company will, with respect to any Shares for which the undersigned is the record or beneficial holder, cause the transfer agent for the Company to note stop transfer instructions with respect to such Shares on the transfer books and records of the Company.

The undersigned understands that the Company, the Underwriters and the Representatives will proceed with the Public Offering in reliance of this Lock-up Agreement.

The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this letter agreement. Any obligations of the undersigned shall be binding upon the successors and assigns of the undersigned.

Very truly yours,

Computer Associates International,Inc.

By: Charles P. McWade
Senior Vice President
Finance

Schedule I

Shares	Lock-up Period
1,200,000 Shares issuable upon conversion of the Convertible Note	45 days
Number of Shares issuable upon conversion of the Convertible Note in excess of 1,200,000	90 days