AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 3, 1997
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

QAD INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	7372	77-0105228
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

6450 VIA REAL, CARPINTERIA, CALIFORNIA 93013
(805) 684-6614
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

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

COPIES TO:

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601 South Figueroa Street, 30th Fl.	Professional Corporation	Professional Corporation
Los Angeles, California 90017	801 Garden Street, Suite 201	650 Page Mill Road
(213) 892-4000	Santa Barbara, California 93101	Palo Alto, California 94304-1050
	(805) 568-1151	(415) 493-9300

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

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

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

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

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

CALCULATION OF THE REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1)(2)	AMOUNT OF REGISTRATION FEE
Common Stock, par value $.001 per share.....	6,612,500	$14.00	$92,575,000	$28,054

(1) Includes an aggregate of 862,500 shares that the Underwriters have the option to purchase to cover over-allotments, if any.

(2) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457 under the Securities Act of 1933, as amended.

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

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EXPLANATORY NOTE

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

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

SUBJECT TO COMPLETION, DATED JUNE 3, 1997

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

P R O S P E C T U S

5,750,000 SHARES

[LOGO]

COMMON STOCK

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

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

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

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

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

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

(1) For information regarding indemnification of the U.S. Underwriters and the Managers, see "Underwriting."

(2) Before deducting estimated offering expenses of $1,800,000, payable by the Company.

(3) The Company has granted the several U.S. Underwriters and the several Managers a 30-day option to purchase up to 862,500 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $, $ and $, respectively.

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

SMITH BARNEY INC.

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

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

CAPTIONS:

1. MFG/PRO SOFTWARE PROVIDES MULTINATIONAL ORGANIZATIONS WITH AN INTERGRATED ERP

SOLUTION THAT IS BASED ON AN OPEN, CLIENT/SERVER ARCHITECTURE AND INCLUDES MANUFACTURING, DISTRIBUTION, FINANCIAL AND SERVICE/SUPPORT MANAGEMENT APPLICATIONS.

2. QWIZARD SOFTWARE IS A MENTOR FOR USERS OF MFG/PRO SOFTWARE WHICH PROVIDES SELF-PACED INTERACTIVE TRAINING. QWIZARD SOFTWARE INCLUDES TOOLS TO DESIGN AND CUSTOMIZE THE VISUAL INTERFACE OF MFG/PRO SOFTWARE TO MATCH THE USER'S WORKFLOWS AND JOB RESPONSIBILITIES.

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

[GRAPHICAL DEPICTION OF QAD CUSTOMERS' BUSINESS MODEL]

CAPTION:

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

PARTIAL CUSTOMER LIST

INDUSTRIAL/ELECTRONICS
ABB Flakt Oy
Alcatel Services International B.V.
Allen-Bradley Co. Inc.
Aluminum Company of America
AT&T
The Black & Decker Corporation
Courtaulds plc
Ingersoll-Rand Company
Lucent Technologies Inc.
Matsushita Electric-Industrial Co., Ltd
NEC America, Inc.
Newbridge Networks Corporation
Philips International B.V.
RAYCHEM Corporation
Schlumberger Technology Corp.
Silicon Graphics SA
Sun Microsystems, Inc.
Xerox Corporation
FOOD/BEVERAGE
AEP Borden Nederland B.V.
Cargill, Incorporated
Kraft Jacobs Suchard AG
Pepsi-Cola Company
Presto Foods Products
The Quaker Oats Company
Rich Products Corporation
Unilever N.V.
CONSUMER PACKAGED GOODS
Colgate-Palmolive Company
Gillette Company
Johnson & Johnson
Rexall Sundown, Inc.
MEDICAL
ALZA Corporation
BOC Ohmeda Inc.
Physio-Control Corporation
St. Jude Medical, Inc.
Sunrise Medical Inc.
Ventritex, Inc.
AUTOMOTIVE
Aeroquip-Vickers, Inc.
Daewoo Information

Systems Co. Ltd.
Ford Motor Corporation
Johnson Controls, Inc.
Lear Seating Corporation
R.J. Tower Corporation
Rockwell Automotive
UT Automotive, Inc.
Varity Kelsey-Hayes Company

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

CAPTIONS:

1. QAD BELIEVES THAT THE INCREASING COMPLEXITY AND DIVERSITY OF CUSTOMER REQUIREMENTS LIMITS THE ABILITY OF A SINGLE-VENDOR SOLUTION TO FULLY MEET THE ENTERPRISE-WIDE ERP SOFTWARE NEEDS OF ITS CUSTOMERS AND HAS LED TO THE EMERGENCE OF THREE DISTINCT SEGMENTS WITHIN THE ERP SOFTWARE MARKET: CORPORATE, PLANT AND SUPPLY CHAIN MANAGEMENT.

2. QAD HAS A NUMBER OF JOINT DEVELOPMENT AGREEMENTS WITH THIRD-PARTY SOFTWARE DEVELOPERS WHO PROVIDE FUNCTIONALITY THAT HAS BEEN IMBEDDED INTO OR INTEGRATED WITH MFG/PRO SOFTWARE TO DELIVER A MORE COMPLETE SOLUTION FOR ITS TARGETED VERTICAL MARKETS.

3. THE COMPANY BELIEVES SUPPLY CHAIN OPTIMIZATION REPRESENTS ONE OF THE GREATEST CURRENT OPPORTUNITIES FOR COMPANIES TO REDUCE COSTS AND ENHANCE CUSTOMER RELATIONSHIPS. QAD IS DEVELOPING ON/Q SOFTWARE, A GROUP OF APPLICATIONS FOR THIS MARKET, THAT ARE BASED ON AN OBJECT-ORIENTED TECHNOLOGY, RESULTING IN FLEXIBLE AND CONFIGURABLE APPLICATION COMPONENTS. THE FIRST ON/Q SOFTWARE APPLICATION UNDER DEVELOPMENT, LOGISTICS, IS EXPECTED TO BE COMMERCIALLY AVAILABLE IN THE SECOND HALF OF 1998.

PROSPECTUS SUMMARY

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

THE COMPANY

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

The Company's principal product, MFG/PRO software, is specifically designed for deployment at the plant or division level of global manufacturers in five targeted industry segments--industrial/electronics, food/beverage, consumer packaged goods, medical and automotive. MFG/PRO software provides multinational organizations with an integrated ERP solution that is based on an open, client/server architecture and includes manufacturing, distribution, financial and service/support management applications. Additionally, the Company is currently focused on extending its presence in multi-site manufacturing by developing a line of object-oriented, supply chain management solutions, named On/Q software. The Company's initial On/Q software product, Logistics, is

designed to allow for consolidation of orders, contract management, shipping and logistics management. Logistics is currently in development and is expected to be commercially available in the second half of 1998. As of April 30, 1997, the Company had licensed MFG/PRO software at approximately 3,200 sites to approximately 1,880 customers in over 70 countries. The Company's customers include Cargill, Incorporated, Colgate-Palmolive Company, Johnson Controls, Inc., Johnson & Johnson, Lucent Technologies Inc., Philips Electronics N.V., St. Jude Medical, Inc., Unilever N.V. and UT Automotive, Inc.

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

THE OFFERING

Common Stock offered:	
U.S. Offering	4,600,000 shares
International Offering	1,150,000 shares
Total	5,750,000 shares (1)
Common Stock to be outstanding after the Offering	28,274,234 shares (1)(2)
Use of proceeds	For repayment of indebtedness, to fund capital and other investments and for working capital and general corporate purposes. See "Use of Proceeds."
Proposed Nasdaq National Market symbol	QADI

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(1) Does not include 862,500 shares of Common Stock that are subject to an over-allotment option granted by the Company to the U.S. Underwriters and the Managers.

(2) Excludes 1,061,000 shares of Common Stock issuable upon exercise of options outstanding at April 30, 1997 with exercise prices ranging from $0.18 to $9.53 per share and with a weighted average exercise price of $2.28 per share. See Note 10 of Notes to Consolidated Financial Statements.

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

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

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

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(1) Effective February 1, 1996, the Company changed its financial reporting year end from December 31 to January 31. See Note 1 of Notes to Consolidated Financial Statements.

(2) The basis for the determination of stock used in computing net income (loss) per share is described in Note 1 of Notes to Consolidated Financial Statements.

(3) Adjusted to give effect to the sale of 5,750,000 shares of Common Stock offered by the Company in the Offering at an assumed initial public offering price of $13.00 per share after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company and the application of the estimated net proceeds therefrom, including the use of approximately $19.5 million to repay amounts owed under notes payable and long-term debt and $2.0 million to acquire an equity interest in a private technology development company. See "Use of Proceeds" and "Capitalization."

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

RISK FACTORS

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

HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS

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

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

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

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

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

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

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

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

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

RISKS ASSOCIATED WITH SALES CYCLE

Because the license of the Company's products generally involves a significant commitment of capital (which ranges from approximately $50,000 to

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

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

SEASONALITY OF OPERATING RESULTS

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

PRODUCT CONCENTRATION

The Company has historically derived substantially all of its revenue from the licensing and maintenance of the Company's MFG/PRO software. In the fiscal year ended January 31, 1997 and in the quarter ended April 30, 1997, such revenue equaled approximately 94% and 93%, respectively, of the Company's total revenue. The Company expects that such revenue will continue to represent substantially all of the Company's revenue for the foreseeable future. The Company's success depends on continued market acceptance of the Company's MFG/PRO software, as well as the Company's ability to introduce new versions of MFG/PRO software and other products to meet the evolving needs of its customers. Although demand for MFG/PRO software has grown in recent years, management believes that the market for ERP software is still developing and there can be no assurance that it will continue to grow or that, even if the market does grow, businesses will continue to adopt MFG/PRO software. The failure of the market for ERP software to continue to grow, any reduction in demand for MFG/PRO software as a result of increased competition in the market for ERP software, technological change, failure by the Company to introduce new versions of products acceptable to the marketplace or other similar factors would have a material adverse effect on the Company's business, operating results and financial condition. The Company has spent, and intends to continue to spend, considerable resources educating potential customers about ERP in general and about the features and functions of MFG/PRO software in particular. However, there can be no assurance that such expenditures will enable MFG/PRO software to achieve any additional degree of market penetration or a higher level of market acceptance, nor can there be any assurance that any new ERP products being developed by the Company will achieve the market acceptance necessary to make such products profitable. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Products."

DEPENDENCE ON PROGRESS PRODUCTS

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

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

RAPID TECHNOLOGICAL CHANGE

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

While the Company generally takes steps to avoid interruptions of sales due to the pending availability of new products, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced MFG/PRO software, which could have a material adverse effect on the Company's business, operating results and financial condition. The actual or anticipated introduction of new products, technologies and industry standards can also render existing products obsolete or unmarketable or result in delays in the purchase of such products. As a result, the life cycles of the Company's products are difficult to estimate. The Company must respond to developments rapidly and incur substantial product development expenses. Any failure by the Company to anticipate or respond adequately to technology developments or customer requirements, or any significant delays in introduction of new products, could result in a loss of revenue. Moreover, significant delays in the general availability of such new releases, significant problems in the installation or implementation of such new releases, or customer dissatisfaction

with such new releases, could have a material adverse effect on the Company's business, operating results and financial condition. The Company is also dependent upon third parties for necessary services in connection with the installation and implementation of the Company's products and associated post-sales training. Any errors, delays or other deficiencies in such services due to technology changes or other factors could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Products" and "--Third-Party Implementation Providers."

SUPPLY CHAIN SOLUTIONS UNDER DEVELOPMENT AND UNDERLYING TECHNOLOGY

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

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

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

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

RISK OF SOFTWARE DEFECTS

As a result of the complexities inherent in client/server computing environments and the broad functionality and performance demanded by customers for ERP products, major new products and product enhancements can require long development and testing periods. In addition, software programs as complex as those offered by the Company may contain undetected errors or "bugs" when first introduced or as new versions are released that, despite testing by the Company, are discovered only after a product has been installed and used by customers. While the Company has on occasion experienced delays in the scheduled

introduction of new and enhanced products, to date the Company's business has not been materially adversely affected by delays or the release of products containing errors. There can be no assurance, however, that errors will not be found in future releases of the Company's software, or that the Company will not experience material delays in releasing product improvements or new products. The occurrence of such errors could result in significant losses to the Company or to customers. Such occurrences could also result in reduced market acceptance of the Company's products, which would have a material adverse effect on the Company's business, operating results and financial condition.

MARKET CONCENTRATION

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

MANAGEMENT OF GROWTH

The Company's business has grown rapidly in the last six years, with revenue increasing from approximately $28.0 million in the fiscal year ended December 31, 1992 to approximately $126.4 million in the fiscal year ended January 31, 1997. During the fiscal year ended December 31, 1995 and continuing through the quarter ended April 30, 1997, the Company significantly increased its sales and marketing, service and support and research and development staff, resulting in substantial growth in the number of its full-time employees (from 521 at March 31, 1995 to 686 at April 30, 1997), the scope of its operating and financial systems and the geographic distribution of its operations and customers. This recent rapid growth has placed, and will continue to place, a significant strain on the Company's management and operations. The Company expects to continue to increase staffing levels, primarily in the sales and marketing and research and development areas, and incur additional associated costs in future periods. The Company's future operating results will depend on the ability of its officers and other key employees to continue to implement and improve its operational, customer support and financial control systems, and to effectively expand, train and manage its employee base. There can be no assurance that the Company will be able to manage any future expansion successfully, and any inability to do so would have a material adverse effect on the Company's business, operating results and financial condition. The Company has undertaken a project to significantly upgrade its financial planning and control systems, including an upgrade of its current transaction accounting systems. The Company believes the success of such implementation will improve its budgeting, forecasting and financial statement reporting capabilities. However, implementation of these systems upgrades will require significant management and other employee attention and coordination, and there can be no assurance that the implementation will be successful. The failure to successfully implement the upgrades could materially adversely affect the Company's future budgeting, forecasting and financial statement reporting capabilities.

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

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

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

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

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

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

DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS

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

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

distributors. The Company's distributors primarily sell independently to companies within their geographic territory but may also work in conjunction with the Company's direct sales organization. The Company will need to maintain and expand its relationships with its existing distributors and enter into relationships with additional distributors in order to expand the distribution of its products. There can be no assurance that current or future distributors will provide the level and quality

of expertise and service required to successfully license the Company's products, that the Company will be able to maintain effective, long-term relationships with distributors, or that selected distributors will continue to meet the Company's sales needs. Further, there can be no assurance that these distributors will not market software products in competition with the Company in the future or will not otherwise reduce or discontinue their relationships with or support of the Company and its products. The failure by the Company to maintain successfully its existing distributor relationships or to establish new relationships in the future would have a material adverse effect on the Company's business, results of operations and financial condition. In addition, if any of the Company's distributors exclusively adopts a product other than the Company's products, or if any such distributor materially reduces its sales efforts relating to the Company's products or materially increases such support for competitive products, the Company's business, operating results and financial condition could be materially and adversely affected. See "Business--Sales and Marketing."

COMPETITION

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

RELIANCE ON AND NEED TO DEVELOP ADDITIONAL RELATIONSHIPS WITH THIRD PARTIES

The Company has established strategic relationships with a number of consulting and systems integration organizations that it believes are important to its worldwide sales, marketing, service and support activities and the implementation of its products. The Company is particularly reliant on third

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

The Company typically enters into separate agreements with each of its installation and implementation partners that provide such partners with the non-exclusive right to promote and market the Company's products, and to provide training, installation, implementation and other services for the Company's products, within a defined territory for a specified period of time (generally two years). Although the Company's installation and implementation partners do not receive fees for the sale of the Company's software products, they generally are permitted to set their own rates for such services and the Company typically does not collect a royalty or percentage fee from such partners on services performed. The Company also enters into similar agreements with its distribution partners that grant such partners the non-exclusive right, within a specified territory, to market, license, deliver and support the Company's products. In exchange for such distributors' services, the Company receives a negotiated royalty fee for the license of its software products. The Company also relies on third parties for the development or inter-operation of key components of its software so that users of the Company's software will obtain the functionality demanded. Such research and product alliances include software developed to be sold in conjunction with the Company's software products, technology developed to be included in or encapsulated within the Company's software products and

numerous third-party software programs that generally

are not sold with the Company's software but inter-operate directly with the Company's software through application program interfaces. The Company generally enters into joint development agreements with its third-party software development partners that govern ownership of the technology collectively developed. Each of the Company's partner agreements and third-party development agreements contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and the Company's third-party development agreements contain restrictions on the use of the Company's technology outside of the development process. The failure of the Company to establish or maintain successful relationships with such third-party software providers or such third-party installation, implementation and development partners or the failure of such third-party software providers to develop and support their software could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Sales and Marketing," "--Third-Party Implementation Providers" and "--Proprietary Rights and Licensing."

INTELLECTUAL PROPERTY RIGHTS; USE OF LICENSED TECHNOLOGY

The Company's success is dependent upon its proprietary technology and other intellectual property. The Company relies primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect its rights in its software. The Company enters into license agreements with each of its customers. Each of the Company's license agreements provides for the non-exclusive license of the Company's MFG/PRO software. Such licenses generally are perpetual (unless terminated by either party upon 30 days written notice) and contain strict confidentiality and non-disclosure provisions, a limited warranty covering MFG/PRO software and indemnification for the customer from any infringement action related to MFG/PRO software. The pricing policy under each license is based on a standard price list and may vary based on the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and level of ongoing support, training and services to be provided by the Company. The Company has no patents or pending patent applications. In order to facilitate the customization required by most of the Company's customers, the Company generally licenses its MFG/PRO software to end users in both object code (machine-readable) and source code (human-readable) format. While this practice facilitates customization, making software available in source code also makes it easier for third parties to copy or modify the Company's software for non-permitted purposes. One of the Company's distributors has developed modifications to the Company's software which it owns jointly with the Company. The Company has entered into a reciprocal license with this distributor who markets the product enhancements in conjunction with MFG/PRO software. This or other distributors or other persons may continue to independently develop a modified version of the Company's software. The Company seeks to protect its software, documentation and other written materials under the legal provisions relating to trade secret, copyright and contract law. The Company's license agreements generally allow the use of MFG/PRO software solely by the customer for internal purposes without the right to sublicense or transfer MFG/PRO software to third parties. The Company believes that the foregoing measures afford only limited protection. Despite the Company's efforts, it may be possible for third parties to copy certain portions of the Company's products or reverse engineer or obtain and use information that the Company regards as proprietary. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent as do the laws of the United States. Accordingly, there can be no assurance that the Company will be able to protect its proprietary software against unauthorized third-party copying or use, which could adversely affect the Company's competitive position. Policing unauthorized use of the Company's products is difficult, and while the Company is unable to determine the extent to which piracy of its software products exist, software piracy can be expected to be a problem. Furthermore, there can be no assurance that the Company's competitors will not independently develop technology similar to that of the Company.

The Company has in the past been subject to claims of intellectual property infringement and may increasingly be subject to such claims as the number of products and competitors in the Company's targeted vertical markets grows and the functionality of products in other industry segments overlaps. Although the

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

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

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

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

The Company expects to commit additional time and resources to expanding its worldwide sales and marketing activities, localizing its products for selected markets and developing local sales and support channels. There can be no assurance that such efforts will be successful. Failure to sustain or increase international revenue could have a material adverse effect on the Company's business, operating results and financial condition. The Company may also experience an operating loss in one or more regions of the world for one or more periods. The Company's ability to manage such operational fluctuations and to maintain adequate long-term strategies in the face of such developments will be critical to the Company's continued growth and profitability. International operations are subject to a number of risks, including the costs of localizing products for different countries, longer accounts receivable collection periods and greater difficulty in accounts receivable collections in certain geographic regions, unexpected changes in

regulatory requirements, dependence on distributors and technology standards, import and export restrictions and tariffs, difficulties and costs of staffing and managing international operations, potentially adverse tax consequences, political instability, the burdens of complying with multiple, potentially conflicting laws and the impact of business cycles and economic instability. See "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations" and "Business--Sales and Marketing."

EXPOSURE TO CURRENCY FLUCTUATIONS

To date, the Company's revenue from international operations has primarily been denominated in United States dollars. The Company prices its products in United States dollars and over 90% of the Company's sales in the years ended December 31, 1995 and January 31, 1997 and in the quarter ended April 30, 1997 were denominated in United States dollars, with the remainder in ten different currencies. The Company expects that a growing percentage of its business will be conducted in currencies other than the United States dollar. The Company also incurs a significant portion of its expenses in currencies other than the United States dollar, including a substantial portion of its general and administrative expenses. As a result, fluctuations in the values of the respective currencies relative to the other currencies in which the Company generates revenue could materially adversely affect its business, operating results and financial condition. While the Company may in the future change its pricing practices, an increase in the value of the United States dollar relative to foreign currencies could make the Company's products more expensive and, therefore, less competitive in other markets. Fluctuations in currencies relative to the United States dollar will affect period-to-period comparisons of the Company's reported results of operations. In the fiscal year ended December 31, 1996, the Company realized $407,000 in foreign currency transaction gains, compared to losses of $477,000 and $343,000 in the fiscal years ended December 31, 1995 and 1994, respectively. Due to the constantly changing currency exposures and the volatility of currency exchange rates, there can be no assurance that the Company will not experience currency losses in the future, nor can the Company predict the effect of exchange rate fluctuations upon future operating results. The Company does not currently undertake hedging transactions and has limited resources to cover its currency exposure. The Company may choose to hedge a portion of its currency exposure in the future as it deems appropriate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

CONTROL BY PRINCIPAL STOCKHOLDERS

Upon completion of the Offering, Pamela and Karl Lopker will jointly beneficially own 67% of the Company's outstanding Common Stock (65% if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full). Current directors and executive officers as a group will own approximately 71% of the Common Stock following consummation of the Offering (assuming no exercise of the U.S. Underwriters' and the Managers' over-allotment option). Consequently, the directors and executive officers, and the Lopkers in particular, will be able to control the outcome of all matters submitted for stockholder action, including the election of members to the Company's Board of Directors and the approval of significant change in control transactions, and will effectively control the management and affairs of the Company, which may have the effect of delaying or preventing a change in control of the Company. Although the Company anticipates increasing the number of members on its Board of Directors from three to five members within 90 days of the consummation of the Offering, the Lopkers will nonetheless constitute two of the directors and will therefore have significant influence in directing the actions of the Board of Directors. See "Management" and "Principal Stockholders."

PRODUCT LIABILITY

While the Company's license agreements with its customers typically contain provisions designed to limit the Company's exposure to potential product liability claims, it is possible that such limitation of

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

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

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

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

ANTI-TAKEOVER PROVISIONS

The Company's Certificate of Incorporation (the "Certificate of Incorporation"), and Bylaws (the "Bylaws"), contain certain provisions that may have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals that a stockholder might consider favorable, including provisions which authorize the issuance of "blank check" preferred stock, provide for a Board of Directors with staggered three-year terms, require super-majority voting to effect certain

amendments to the Certificate of Incorporation and Bylaws, limit the persons who may call special meetings of stockholders, and establish advance notice requirements for stockholder nominations for election to the Board of Directors or for stockholder proposals of business to be considered at stockholders meetings. Certain provisions of Delaware law may also have the effect of discouraging, delaying or preventing a change in control of the Company or unsolicited acquisition proposals. See "Description of Capital Stock--Certain Anti-Takeover, Limited Liability and Indemnification Provisions."

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

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

(the "Act"), unless held by "affiliates" of the Company as that term is defined in Rule 144 under the Act ("Rule 144"). The remaining 22,524,234 shares of Common Stock outstanding upon completion of the Offering are "restricted securities" as that term is defined in Rule 144.

The directors, executive officers and certain other stockholders of the Company holding an aggregate of 20,416,172 outstanding shares of Common Stock and options to purchase 967,000 shares of Common Stock, have agreed pursuant to Lock-Up Agreements that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances. The representatives of the Underwriters have informed the Company that the Underwriters have no current intention to release shares from the Lock-Up Agreements prior to expiration of the 180-day term of such agreements. Any request for release would be evaluated by the representatives of the Underwriters, and the decision whether or not to permit early release of stock would be made dependent upon the facts and circumstances existing at the time of the request. Beginning upon expiration of the Lock-Up Agreements, such shares will be eligible for sale pursuant to Rule 144 or Rule 701 under the Act ("Rule 701") subject to the provisions of such rules and continued vesting. The remaining 2,108,062 outstanding shares of Common Stock and options to purchase 94,000 shares of Common Stock are not subject to Lock-Up Agreements and will become eligible for sale upon completion of the Offering, subject to the provisions of Rule 144, Rule 701 and continued vesting. Concurrent with the completion of the Offering, 490,760 of such outstanding shares of Common Stock and 44,000 of such shares underlying options will become immediately eligible for sale without additional restrictions under Rule 144 and Rule 701 and 112,060 of such outstanding shares of Common Stock held by certain affiliates of the Company will be eligible for sale pursuant to the volume, manner of sale and notice requirements of Rule 144. The Company has granted Smith Barney Inc. certain demand registration rights with respect to 6,100,000 shares of Common Stock which have been pledged in connection with a personal loan. See "Shares Eligible for Future Sale" and "Underwriting."

NO SPECIFIC PLAN FOR PROCEEDS OF THE OFFERING

The Company has no current specific plans for a significant amount of the net proceeds of the Offering. The principal purposes of the Offering are to provide increased visibility of the Company in a marketplace where many of its competitors are publicly held companies, to create a public market for the Common Stock, to increase the Company's equity capital, to facilitate future access by the Company to public equity market, to repay indebtedness and to fund capital and other investments as well as potential

investments and acquisitions. The Company's management will have the discretion to allocate the proceeds of the Offering to uses that the Company's stockholders may not deem desirable. See "Use of Proceeds."

NO DIVIDENDS

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

IMMEDIATE SUBSTANTIAL DILUTION

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

USE OF PROCEEDS

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

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

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

DIVIDEND POLICY

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

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

CAPITALIZATION

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

	APRIL 30, 1997	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Notes payable and current installments of long-term debt (1)	$ 15,143	$ --
Long-term debt, less current installments (1)	4,320	--
Total debt	19,463	--

Stockholders' equity:		
Preferred Stock, no par value, actual; par value $0.001 per share, as adjusted; 5,000,000 shares authorized, none issued and outstanding	--	--
Common Stock, no par value, actual; par value $0.001 per share, as adjusted; 150,000,000 shares authorized; 22,524,234 shares issued and outstanding, actual; and 28,274,234 shares issued and outstanding, as adjusted (2)	6,554	28
Additional paid-in capital	--	74,243
Retained earnings	8,099	8,099
Receivable from stockholders	(642)	(642)
Unearned compensation--restricted stock	(2,255)	(2,255)
Cumulative foreign currency translation adjustment	(804)	(804)
Total stockholders' equity	10,952	78,669
Total capitalization	$ 30,415	$ 78,669

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

(2) Excludes 1,061,000 shares of Common Stock issuable upon exercise of options outstanding as of April 30, 1997 with exercise prices ranging from $0.18 to $9.53 per share and with a weighted average exercise price of $2.28 per share. In May 1997, the Company adopted the QAD Inc. 1997 Stock Incentive Program pursuant to which 4,000,000 shares of Common Stock are reserved for issuance thereunder. See "Management--Executive Compensation," "Description of Capital Stock" and Note 10 of Notes to Consolidated Financial Statements.

DILUTION

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

Assumed initial public offering price per share		$ 13.00
Net tangible book value per share at April 30, 1997	$ 0.49	
Increase in net tangible book value per share attributable to new investors	2.29	
Pro forma net tangible book value per share after the Offering		2.78
Dilution per share to new investors		$ 10.22

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

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

The preceding table assumes no exercise of any stock options outstanding as of April 30, 1997. As of April 30, 1997, there were options outstanding to purchase a total of 1,061,000 shares of Common Stock with exercise prices ranging from $0.18 to $9.53 per share and with a weighted average exercise price of $2.28 per share. If all options outstanding as of April 30, 1997 had been exercised as of such date, the dilution per share to new investors in the Offering would be $10.24. In May 1997, the Company adopted the QAD Inc. 1997 Stock Incentive Program pursuant to which 4,000,000 shares of Common Stock were reserved for issuance thereunder. As of the date of this Prospectus, no stock options had been granted or shares issued under the Program. To the extent that options are granted and subsequently exercised or shares are issued under the Program, new investors may experience further dilution. See Note 10 of Notes to Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

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

	YEAR ENDED						
	DECEMBER 31,				JANUARY 31,	QUARTER ENDED APRIL 30,	
	1992	1993	1994	1995	1997	1996	1997
	(IN THOUSANDS, EXCEPT PER SHARE DATA) (UNAUDITED)						
STATEMENT OF INCOME DATA:							
Revenue:							
License fees	$15,408	$27,525	$48,665	$63,756	$85,753	$ 11,070	$19,149
Maintenance and other	12,666	19,018	17,695	26,193	40,691	9,046	12,924
Total revenues	28,074	46,543	66,360	89,949	126,444	20,116	32,073
Cost and expenses:							
Cost of revenues	5,415	9,236	14,896	20,102	24,401	5,831	8,958
Sales and marketing	10,043	15,526	17,764	36,232	52,099	13,550	13,566
Research and development	2,276	3,685	14,577	19,796	28,689	6,658	5,675
General and administrative	6,775	11,654	15,039	16,465	18,933	4,277	3,557
Total cost and expenses	24,509	40,101	62,276	92,595	124,122	30,316	31,756
Operating income (loss)	3,565	6,442	4,084	(2,646)	2,322	(10,200)	317
Other (income) expense:							
Interest income	(21)	(9)	(34)	(38)	(52)	--	(48)
Interest expense	111	232	462	825	1,657	429	435
Other	786	886	(99)	48	(797)	(146)	(803)
Total other (income) expense	876	1,109	329	835	808	283	(416)
Income (loss) before income taxes	2,689	5,333	3,755	(3,481)	1,514	(10,483)	733
Income tax expense (benefit)	1,100	1,860	877	(2,795)	514	(3,166)	173

Income before cumulative effect of change in accounting principle	1,589	3,473	2,878	(686)	1,000	(7,317)	560
Cumulative effect of change in accounting principle	--	221	--	--	--	--	--
Net income (loss)	$ 1,589	$ 3,694	$ 2,878	$ (686)	$ 1,000	$ (7,317)	$ 560
Net income (loss) per share (1)	$ 0.08	$ 0.18	$ 0.12	$ (0.03)	$ 0.04	$ (0.33)	$ 0.02
Shares used in computing net income (loss) per share (1)	20,788	20,788	23,887	21,889	23,534	22,167	24,015

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

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

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

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

INTRODUCTION

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the Notes thereto included elsewhere in this Prospectus. Effective February 1, 1996, the Company changed its financial reporting year end from December 31 to January 31. The Company's fiscal years ending on or prior to December 31, 1995 ended December 31. All references to "fiscal 1996" refer to the 12-month period ended January 31, 1997.

OVERVIEW

Founded in 1979, the Company is a leading provider of ERP software for multinational and other large manufacturing companies. In 1986, the Company commercially released its open, client/server based ERP application, MFG/PRO software. Since that time, the Company has introduced several new generations of its MFG/PRO software, and has significantly expanded its operations. As of April 30, 1997, the Company had 686 employees, over 20 direct sales and support offices and 40 distributors worldwide, and approximately 1,880 customers in over 70 countries. Total revenues have grown rapidly in recent years, increasing from $28.1 million in 1992 to $126.4 million in fiscal 1996.

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

License fees for the Company's products generally range from $50,000 to several million dollars, depending on the configuration of the products, the

number of sites and the number of users. No single customer has accounted for greater than 10% of the Company's total revenues in any of the Company's last three fiscal years. However, it is not uncommon for QAD to conclude a multi-million dollar contract with a single customer, and the Company expects revenue from large individual licenses to increase as a percentage of total revenues.

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

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

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

During the year ended December 31, 1995, through the quarter ended April 30, 1997, the Company significantly increased its sales and marketing, service and support and research and development staff. These increases resulted in substantial growth in the number of its full-time employees (from 521 at March 31, 1995, to 686 at April 30, 1997), the scope of its financial and operating systems and the geographic distribution of its direct sales and support operations (from 12 to 17 countries). These investments were incurred in connection with the Company's strategy to establish and maintain a leadership position as a global supplier of ERP solutions at the plant level as well as to enter new markets such as supply chain management software. QAD believes that such investments were essential in the development of the Company's products and operations. Such commitment of resources has had, and may continue to have, a significant impact on the Company's financial results, including annual and quarterly profitability.

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

The Company records revenue primarily in United States dollars. However, the Company has historically recorded local expenses in local currency. The Company's reporting currency is the United States dollar. Foreign currency transaction and translation gains and losses are recorded in accordance with Statement of Financial Accounting Standards No. 52. In fiscal 1996, the Company realized $407,000 in foreign currency transaction gains, compared to losses of $477,000 and $343,000 in fiscal 1995 and 1994, respectively. The Company has not previously undertaken hedging transactions to cover its currency exposure, but

may implement programs to mitigate foreign currency exposure risk in the future as management deems appropriate. See "Risk Factors--Risks Associated With International Operations" and "--Exposure To Currency Fluctuations."

RESULTS OF OPERATIONS

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

	YEAR ENDED			QUARTER ENDED APRIL 30,	
	DECEMBER 31,		JANUARY 31,		
	1994	1995	1997	1996	1997
Revenue:					
License fees	73%	71%	68%	55%	60%
Maintenance and other	27	29	32	45	40
Total revenues	100%	100%	100%	100%	100%
Cost and expenses:					
Cost of revenues	22	23	19	29	28
Sales and marketing	27	40	41	68	42
Research and development	22	22	23	33	18
General and administrative	23	18	15	21	11
Total cost and expenses	94	103	98	151	99
Operating income (loss)	6	(3)	2	(51)	1
Other (income) expense:					
Interest income	(0)	(0)	(0)	--	0
Interest expense	1	1	1	2	1
Other	(0)	0	(0)	(1)	(3)
Total other (income) expense	1	1	1	1	(2)
Income (loss) before income taxes	5	(4)	1	(52)	3
Income tax expense (benefit)	1	(3)	0	(16)	1
Net income (loss)	4%	(1)%	1%	(36)%	2%

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

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

COST OF REVENUES. Cost of revenues consists primarily of charges incurred from reselling third-party databases (and their associated maintenance contracts) which are required to run MFG/PRO software, support costs associated with MFG/PRO software maintenance contracts and the costs associated with the reproduction and delivery of the Company's software. During the three months ended April 30, 1997, cost of revenues increased 54% to $9.0 million from $5.8 million in the same period in 1996. For the three months ended April 30, 1997, cost of revenues as a percentage of total revenues decreased to 28% from 29% during the same period in 1996. The dollar increase in cost of revenues from 1996 to 1997 was consistent with the increases in total revenues during the same period.

SALES AND MARKETING. Sales and marketing expense consists primarily of salaries and associated fringe benefits, travel and entertainment expenses and promotional and advertising costs. Sales and marketing

expense was $13.6 million in each of the periods ended April 30, 1996 and 1997. For the three months ended April 30, 1997, sales and marketing expense as a

percentage of total revenues decreased to 42% from 68% during the same period in 1996. The first quarter of 1996 included substantial expenses related to the Company's annual user conference, which did not occur during the same period in 1997. The decrease in sales and marketing expense as a percentage of total revenues was primarily due to the nonrecurring marketing infrastructure expenses that were made in the first quarter of fiscal 1996, the adjustment of sales and marketing expense made in the three months ended April 30, 1997 to better match anticipated revenue and the expenses related to the Company's annual user conference in the first quarter of fiscal 1996.

RESEARCH AND DEVELOPMENT Research and development expense consists primarily of salaries and associated fringe benefits, related overhead expenses and amounts paid to consultants and third party developers to supplement the product development efforts of the Company's in-house staff. During the three months ended April 30, 1997, research and development expense decreased 15% to $5.7 million from $6.7 million in the same period in 1996. In the first quarter of 1997, research and development expense as a percentage of total revenues decreased from 33% to 18% from the same period in 1996. The decreases in research and development expense in both dollar amount and as a percentage of total revenues were primarily the result of a reduction in the utilization of third-party software developers. Such reduction in the use of third-party developers was accomplished through increased internal staffing within the research and development department.

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

GENERAL AND ADMINISTRATIVE. During the three months ended April 30, 1997, general and administrative expense decreased 17% to $3.6 million from $4.3 million in the same period in 1996. During the three months ended April 30, 1997, general and administrative expense as a percentage of total revenues decreased to 11% from 21% during the same period in 1996. The decreases in general and administrative expense in both dollar amount and as a percentage of total revenues were primarily the result of the adjustment of general and administrative expense to better match anticipated revenue. The Company anticipates increases in general and administrative expense in the future.

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

FISCAL YEARS 1996, 1995 AND 1994

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

COST OF REVENUES. Cost of revenues increased 21% to $24.4 million in fiscal 1996 from $20.1 million in fiscal 1995, and increased 35% in fiscal 1995 from $14.9 million in fiscal 1994. Cost of revenues as a percentage of total revenues decreased to 19% in fiscal 1996 from 23% in fiscal 1995 and 22% in fiscal

1994. The increase in dollar amount was primarily the result of costs associated with the year over year growth in revenues of reselling third-party databases. The decrease in cost of revenues as a percentage of total revenues was primarily due to increased sales of MFG/PRO software licenses where the purchase of third-party tools and databases were deferred or where the licensee obtained

licenses of third-party tools and databases directly from the third-party vendor.

SALES AND MARKETING. Sales and marketing expense increased 44% to $52.1 million in fiscal 1996 from $36.2 million in fiscal 1995, and increased 104% in fiscal 1995 from $17.8 million in fiscal 1994. Sales and marketing expense as a percentage of total revenues increased to 41% in fiscal 1996 from 40% in fiscal 1995 and 27% in fiscal 1994. The dollar increases as well as the increases as a percentage of total revenues were primarily due to the expansion of the Company's global sales force, opening and supporting global sales offices and increasing marketing expense to promote the Company's name and products. The expansion was initiated in fiscal 1995 and continued into fiscal 1996.

RESEARCH AND DEVELOPMENT. Research and development expense increased 45% to $28.7 million in fiscal 1996 from $19.8 million in fiscal 1995, and increased 36% in fiscal 1995 from $14.6 million in fiscal 1994. Research and development expense as a percentage of total revenues increased to 23% in fiscal 1996 from 22% in fiscal 1995 and 1994. The increases in research and development expense both in dollar amount and as a percentage of total revenues were primarily due to increased staffing of, and associated support for, product engineers in connection with efforts to develop On/Q, the Company's new supply chain management software which the Company expects to be commercially available in the second half of fiscal 1998, and Qwizard, a computer-based interactive training tool which became commercially available in May 1997. In addition, the increases were due to ongoing enhancements to MFG/PRO software, including the ongoing migration of MFG/PRO software to object-oriented technology.

GENERAL AND ADMINISTRATIVE. General and administrative expense increased 15% to $18.9 million in fiscal 1996 from $16.5 million in fiscal 1995, and increased 9% in fiscal 1995 from $15.0 million in fiscal 1994. General and administrative expense as a percentage of total revenues decreased to 15% in fiscal 1996 from 18% in fiscal 1995 and 23% in fiscal 1994. The dollar increases in general and administrative expense were primarily the result of costs associated with the expansion of the Company's administrative infrastructure to support increases in the Company's total revenues. In addition, the Company recognized compensation expense of $648,000 and $2.4 million in fiscal 1996 and fiscal 1995, respectively, in connection with the repurchase of stock held by employees upon their departure from the Company. The Company does not intend to make such repurchases following completion of the Offering. The decrease in general and administrative expense as a percentage of total revenues resulted from total revenues growing faster than general and administrative expense. See Note 10 of Notes to Consolidated Financial Statements.

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

INCOME TAX EXPENSE (BENEFIT). The Company recorded income tax expense (benefit) of $514,000, $(2.8) million and $877,000 in fiscal 1996, 1995 and 1994, respectively. The Company's effective income tax rates were 34% and 23 % in fiscal 1996 and 1994, respectively. The Company's effective income tax rate historically has benefitted from the United States research and development tax credit and tax benefits generated from export sales made from the United States. The tax benefit recorded in 1995 relates primarily to loss carrybacks and carryforwards associated with the Company's entry into new foreign taxing jurisdictions and anticipated future taxable income to be earned in such jurisdictions. The Company has available tax benefits associated with net operating loss carryforwards of foreign subsidiaries aggregating $5.1 million at January 31, 1997. See Note 6 of the Notes to Consolidated Financial Statements.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth a summary of the Company's unaudited quarterly results for the nine quarters ended April 30, 1997, together with the percentage of total revenues represented by such results. This information has been derived from the Company's unaudited quarterly consolidated financial statements. In management's opinion, these quarterly results have been prepared on a basis consistent with the audited Consolidated Financial Statements and the Notes thereto contained elsewhere herein, and include all adjustments (constituting only normal recurring adjustments), which the Company considers

necessary for a fair presentation of the information. The operating results for any certain quarter are not necessarily indicative of results for any future period.

	QUARTER ENDED					
	APRIL 30, 1995	JULY 31, 1995	OCT. 31, 1995	JAN. 31, 1996	APRIL 30, 1996	JULY 31, 1996
	(IN THOUSANDS)					
STATEMENT OF INCOME DATA:						
Revenue:						
License fees	$ 9,025	$ 19,181	$ 12,306	$ 21,271	$ 11,070	$ 23,151
Maintenance and other	5,519	6,026	7,393	8,298	9,046	10,404
Total revenues	14,544	25,207	19,699	29,569	20,116	33,555
Cost and expenses:						
Cost of revenues	4,236	5,245	5,149	5,906	5,831	5,654
Sales and marketing	7,281	9,291	9,244	11,974	13,550	12,190
Research and development	4,662	4,463	5,307	5,965	6,658	6,604
General and administrative	3,084	3,653	3,156	6,621	4,277	3,644
Total cost and expenses	19,263	22,652	22,856	30,466	30,316	28,092
Operating income (loss)	(4,719)	2,555	(3,157)	(897)	(10,200)	5,463
Other (income) expense:						
Interest income	(14)	(18)	6	(8)	--	(8)
Interest expense	158	263	149	339	429	479
Other	(333)	126	(107)	262	(146)	(75)
Total other (income) expense	(189)	371	48	593	283	396
Income (loss) before income taxes	(4,530)	2,184	(3,205)	(1,490)	(10,483)	5,067
Income tax expense (benefit)	(2,496)	1,203	(1,766)	(821)	(3,166)	1,554
Net income (loss)	$ (2,034)	$ 981	$ (1,439)	$ (669)	$ (7,317)	$ 3,513
AS A PERCENTAGE OF TOTAL REVENUES:						
Revenue:						
License fees	62%	76%	62%	72%	55%	69%
Maintenance and other	38	24	38	28	45	31
Total revenues	100%	100%	100%	100%	100%	100%
Cost and expenses:						
Cost of revenues	29	21	26	20	29	17
Sales and marketing	50	37	47	41	68	36
Research and development	32	18	27	20	33	20
General and administrative	21	14	16	22	21	11
Total cost and expenses	132	90	116	103	151	84
Operating income (loss)	(32)	10	(16)	(3)	(51)	16
Other (income) expense:						
Interest income	(0)	(0)	0	(0)	--	(0)
Interest expense	1	1	1	1	2	1
Other	(2)	0	(1)	1	(1)	(0)
Total other (income) expense	(1)	1	0	2	1	1
Income (loss) before income taxes	(31)	9	(16)	(5)	(52)	15
Income tax expense (benefit)	(17)	5	(9)	(3)	(16)	5
Net income (loss)	(14)%	4%	(7)%	(2)%	(36)%	10%

	OCT. 31, 1996	JAN. 31, 1997	APRIL 30, 1997
STATEMENT OF INCOME DATA:			
Revenue:			
License fees	$ 13,915	$ 37,617	$ 19,149
Maintenance and other	9,891	11,350	12,924
Total revenues	23,806	48,967	32,073
Cost and expenses:			
Cost of revenues	4,841	8,075	8,958
Sales and marketing	10,914	15,445	13,566
Research and development	6,930	8,497	5,675
General and administrative	4,746	6,266	3,557
Total cost and expenses	27,431	38,283	31,756
Operating income (loss)	(3,625)	10,684	317
Other (income) expense:			

Interest income	(21)	(23)	(48)
Interest expense	396	353	435
Other	25	(601)	(803)
Total other (income) expense	400	(271)	(416)
Income (loss) before income taxes	(4,025)	10,955	733
Income tax expense (benefit)	(1,235)	3,361	173
Net income (loss)	$ (2,790)	$ 7,594	$ 560
AS A PERCENTAGE OF TOTAL REVENUES:			
Revenue:			
License fees	58%	77%	60%
Maintenance and other	42	23	40
Total revenues	100%	100%	100%
Cost and expenses:			
Cost of revenues	20	16	28
Sales and marketing	46	32	42
Research and development	29	17	18
General and administrative	20	13	11
Total cost and expenses	115	78	99
Operating income (loss)	(15)	22	1
Other (income) expense:			
Interest income	(0)	(0)	(0)
Interest expense	2	1	1
Other	0	(1)	(3)
Total other (income) expense	2	0	(2)
Income (loss) before income taxes	(17)	22	3
Income tax expense (benefit)	(5)	7	1
Net income (loss)	(12)%	15%	2%

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

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

The Company has also historically recognized a substantial portion of its revenue from sales booked and shipped in the last month of a quarter. As a result, the magnitude of quarterly fluctuations in license fees may not become evident until late in, or at the end of, a particular quarter. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, the Company is unlikely to be able to generate revenue from

alternate sources in time to compensate for the shortfall. As a result, a lost or delayed sale could have a material adverse effect on the Company's quarterly operating results. To the extent that significant sales occur earlier than expected, operating results for subsequent quarters may be adversely affected. The Company has also historically operated with little backlog because its products are generally shipped as orders are received. As a result, revenue from license fees in any quarter is substantially dependent on orders booked and shipped in that quarter and on sales by the Company's distributors and other resellers. Sales derived through indirect channels are harder to predict and may have lower profit margins than direct sales.

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

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

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

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

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

COST OF REVENUES. Cost of revenues generally increased in dollar amount for the nine quarters ended April 30, 1997. Cost of revenues as a percentage of total revenues fluctuated between 16% and 29% for the nine quarters ended April 30, 1997. The dollar increases in cost of revenues were primarily due to the costs associated with increased sales of the Company's MFG/PRO software. The

fluctuations in cost of revenues as a percentage of total revenues were primarily a result of fluctuations in sales of MFG/PRO software licenses and where the purchase of third-party databases and associated maintenance contracts were deferred or obtained directly from the vendor.

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

RESEARCH AND DEVELOPMENT. Research and development expense generally increased in dollar amount for the nine quarters ended April 30, 1997. Research and development expense fluctuated between 17% and 33% of total revenues for the nine quarters ended April 30, 1997. The increases in dollar amount for research and development expense have resulted primarily from increased staffing of, and associated support for, product engineers in connection with efforts to develop On/Q, the Company's new supply chain management software which the Company expects to be commercially available in the second half of fiscal 1998, and Qwizard, a computer-based interactive training tool which became commercially available in May 1997. The increase in dollar amount in the quarter ended January 31, 1997 was primarily due to expenses associated with the release of the most recent version of MFG/PRO software, including a substantial increase in the use of third-party developers in connection therewith. The Company's research and development expense has been budgeted according to annual revenue expectations as well as the Company's development schedule for new products and updates to MFG/PRO software. As a result, research and development expense as a percentage of total revenues has varied significantly during the nine quarters ended April 30, 1997 due to fluctuations in total revenues.

GENERAL AND ADMINISTRATIVE. General and administrative expense has fluctuated between 11% and 22% of total revenues for the nine quarters ended April 30, 1997. The variations in general and administrative expense as a percentage of total revenues were primarily due to variations in the quarter to quarter total revenues and the fixed nature of certain components of the Company's general and administrative expense. General and administrative expense increased from $3.1 million in the quarter ended April 30, 1995 to $6.6 million in the quarter ended January 31, 1996, primarily as a result of expansion of the Company's administrative and information technology infrastructure in conjunction with the expansion of the Company's operations. In addition, in the quarters ended January 31, 1997 and 1996 general and administrative expense increased due to compensation expense of $648,000 and $2.4 million, respectively, in connection with the repurchase of stock held by employees upon their departure from the Company. The Company does not intend to make such repurchases following completion of the Offering. See Note 10 of "Notes to Consolidated Financial Statements." In the quarter ended July 31, 1996, the Company adjusted costs, including restructuring compensation, to better match expenses to anticipated revenue. In the quarter ended January 31, 1997, certain sales targets were met and general and administrative expense increased, largely due to the restructuring of the compensation plan.

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

FISCAL YEAR TRANSITION PERIOD

As a result of the change in the Company's fiscal year end in 1996, the

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

At April 30, 1997, the Company had a working capital deficit of $12.2 million. Accounts receivable, net of allowance for doubtful accounts, decreased to $43.8 million at April 30, 1997 from $46.7 million at January 31, 1997. The Company's accounts receivable days' sales outstanding calculated on an annual basis has ranged from 132 days to 159 days during the Company's last three fiscal years, in part as a result of the large percentage of revenue recorded in the last month of the fiscal year. The Company also measures its days' sales outstanding on a rolling average (the average of the last 12 months of days' sales outstanding) which management believes is more representative of the Company's sales cycle. As so calculated, the Company's days' sales outstanding has ranged from 100 to 140 days during the Company's last three fiscal years. The Company believes that the days' sales outstanding are higher than desired and the Company is focusing on its credit and collection processes to improve cash flows and working capital. These efforts include a recruiting effort for a new credit and collections manager, along with a complete review of credit policies and collection procedures. If the Company is unsuccessful in reducing the day's sales outstanding through such efforts, continued high days' sales outstanding could impair the Company's cash position. Total deferred revenue increased to $30.2 million at April 30, 1997 from $29.1 million at January 31, 1997 primarily as a result of increased billings of maintenance agreements.

The Company has a revolving credit agreement which expires on July 31, 1997, subject to automatic successive one-year extensions if not terminated by the Company or the lender 90 days prior to the expiration date. The maximum available amount of borrowings under the revolving credit agreement is equal to the lesser of $20 million or the sum of a percentage of the Company's accounts receivable, $4 million of which may be used only for loans secured by real estate owned by the Company. The total amount of available borrowings under the revolving credit agreement at April 30, 1997 was approximately $20 million. Borrowings under the revolving credit agreement bear interest, calculated monthly, at an annual rate equal to the highest LIBOR rate in effect during the month plus 4.875% but in no event less than 8%. Minimum monthly interest charges are $20,000 (resulting in a rate of 10.565% at April 30, 1997). At April 30, 1997, the Company had approximately $14.7 million of borrowings outstanding under the revolving credit agreement. The Company's revolving credit agreement is collateralized by a security interest in substantially all of the Company's assets. At April 30, 1997, the Company also had outstanding borrowings of $4.8 million under additional term loan agreements and capital leases with other various credit institutions, which included approximately $3.1 million with maturities of one year or less, at interest rates of approximately 9.79% per annum. These term loans and capitalized leases are secured primarily by property and equipment. Amounts outstanding under these additional credit agreements are scheduled to be paid in monthly installments over varying maturities through July 2002. Borrowings under the credit facility during the past 12 months were used for general corporate purposes. The Company intends to repay all the

outstanding balances under the revolving credit agreement, the term loan agreements and capital leases with the proceeds of the Offering, although it intends to retain its revolving credit facility for future use. The revolving credit agreement also limits the Company's ability to incur additional indebtedness outside the ordinary course of business without the prior written consent of the lender. The revolving credit agreement includes a number of other restrictions, including the following: (i) restrictions on granting liens or security interest in its assets, (ii) restrictions on any sale of assets of the Company, other than in the ordinary course of its business, or any merger, consolidation or change of control of the Company, (iii) restrictions on lending or advancing funds to any person or entity except to employees in good-faith arms' length transactions in the ordinary course of business and (iv) restrictions on paying or

declaring dividends on the Company's stock. The Company is currently in the process of negotiating to improve its credit arrangements.

The Company believes that the net proceeds from the Offering, the available borrowings under its revolving credit agreement and cash generated by operations, will satisfy the Company's working capital requirements for at least the next 12 months.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

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

BUSINESS

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

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

INDUSTRY BACKGROUND

In recent years, businesses have been subject to increasing global competition, resulting in pressure to lower production costs, improve product performance and quality, increase responsiveness to customers and shorten product development and delivery cycles. In addition, globalization has greatly increased the scope and complexity of multinational manufacturing organizations. Through business process reengineering, many organizations have begun to reengineer their critical business processes and restructure their organizations to accommodate and exploit rapid changes in the business environment. As part of this process, businesses are seeking ERP software solutions which will enable them to better manage resources across the enterprise and facilitate the integration of sales management, component procurement, inventory management, manufacturing control, project management, distribution, transportation, finance and other functions on a global basis. While historically many companies have developed their ERP software internally, companies are increasingly deploying open, client/server-based ERP applications developed by third parties which reduce internal software development costs and enable increased flexibility and inter-operability across a broad range of hardware and software platforms. The Gartner Group has estimated that the global ERP software market totaled more than $4.4 billion in 1996 and will grow to an estimated $10.0 billion by the year 2000.

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

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

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

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

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

MARKET OPPORTUNITY

While ERP solutions have provided significant benefits to companies by centralizing and integrating the management of enterprise-wide data, the Company believes that customer requirements for industry-specific functionality,

flexibility and ease of implementation pose significant challenges for many ERP vendors. As a result, the Company believes that there is a large and rapidly growing market demand for industry-specific software solutions that meet customers' needs for plant-level deployments and global supply chain management.

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

- Offer localized, multi-language, multi-currency functionality to support global deployments;

- Offer industry-specific product functionality and expertise in key vertical markets;

- Provide global service and support, either directly or through third parties;

- Offer ease of implementation and rapid time to benefit;

- Provide flexibility to meet the diverse needs and business practices of global, multi-site manufacturing implementations;

- Inter-operate and co-exist with corporate-level ERP solutions and industry-leading supply chain management solutions;

- Address supply chain management challenges by offering technology which integrates and optimizes interactions between companies and their customers, suppliers and other business partners; and

- Develop and utilize advanced technologies to deliver superior product functionality.

THE QAD SOLUTION

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

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

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

GLOBAL SERVICE AND SUPPORT. The Company believes that a high level of global service and support is a critical component of its ERP solution for multinational manufacturers. The Company offers product service and support

directly through its sales and support offices in 17 countries and indirectly through its global network of systems integration partners and distributors located in over 40 countries. The Company's systems integrator and distributor network also offers consultancy services for the implementation of its software solutions.

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

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

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

THE QAD STRATEGY

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

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

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

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

markets.

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

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

PRODUCTS

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

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

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

MFG/PRO software currently includes the following modules:

Accounts Payable

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

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

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

PRODUCTS UNDER DEVELOPMENT

The Company's planned suite of supply chain management solutions, On/Q software, is designed to inter-operate with MFG/PRO software and other ERP and supply chain software solutions. The initial
On/Q software product under development, Logistics, is designed to allow for consolidation of orders, contract management, shipping and logistics management. The Company anticipates that Logistics will be commercially available in the second half of 1998. Logistics is specifically designed to meet demand-side requirements of global multinationals, including complex high-volume order processing, import/export management, multiple-route segmentation and logistics, distribution point optimization, lead and sales order management, contract management and liquidation. The Logistics application is targeted to address supply chain issues associated with global manufacturing operations, and is designed to allow orders to be taken from any customer, placed with any number of plants as capacity and product mix change, and filled from the most

cost-efficient available distribution center, while consolidating or distributing invoices to any combination of sold-to-, ship-to- and bill-to-customers. Logistics is also designed to provide cost-efficient consolidation and to provide multi-lingual and multi-currency capabilities. The Company plans to follow Logistics with additional On/Q software products. There can be no assurance, however, that any of the Company's supply chain management solutions will be successfully developed in accordance with planned schedules or at all, or that if successfully developed, such software will achieve market acceptance. See "Risk Factors--Supply Chain Solutions Under Development and Underlying Technology."

TECHNOLOGY

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

The Company is also embracing object-oriented technology as a next generation technology to address the complex supply chain management requirements of companies and to improve business processes. The Company believes that new object-based functionality will play a key role in the competitive manufacturing, distribution, financial, planning and service/support management strategies of customers in the Company's targeted industry segments. Object-oriented technology allows for the creation of systems which are scalable and flexible and which are capable of accommodating changes in business requirements and technology infrastructure.

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

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

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

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

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

RESEARCH AND DEVELOPMENT

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

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

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

Research and development expense increased significantly in recent years as the Company has continued to focus on development of new and enhanced products. Research and development expense, which does not include costs of product support and customization, increased to $28.7 million for the fiscal year ended January 31, 1997, from $19.8 million and $14.6 million for the fiscal years ended December 31, 1995 and 1994, respectively. Research and development expense for the quarter ended April 30, 1997 was $5.7 million. At April 30, 1997 the Company had 164 personnel in its research and development department. See "Risk Factors--Rapid Technological Change," "--Supply Chain Solutions Under Development and Underlying Technology" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

SALES AND MARKETING

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

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

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

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

on the Company's

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

THIRD-PARTY IMPLEMENTATION PROVIDERS

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

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

CUSTOMERS

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

revenue over the last three fiscal years:

INDUSTRIAL/ELECTRONICS
ABB Flakt Oy
Alcatel Services
International B.V.
Allen-Bradley Co. Inc. Aluminum Company of America
AT&T
The Black & Decker
Corporation
Courtaulds plc
Ingersoll-Rand Company
Lucent Technologies Inc.
Matsushita Electric-Industrial
Co., Ltd
NEC America, Inc.
Newbridge Networks
Corporation
Philips International B.V.
RAYCHEM Corporation
Schlumberger Technology Corp.
Silicon Graphics SA
Sun Microsystems, Inc.
Xerox Corporation
FOOD/BEVERAGE
AEP Borden Nederland B.V.
Cargill, Incorporated
Kraft Jacobs Suchard AG
Pepsi-Cola Company
Presto Foods Products
The Quaker Oats Company
Rich Products Corporation
Unilever N.V.
CONSUMER PACKAGED GOODS
Colgate-Palmolive Company
Gillette Company
Johnson & Johnson
Rexall Sundown, Inc.
MEDICAL
ALZA Corporation
BOC Ohmeda Inc.
Physio-Control Corporation
St. Jude Medical, Inc.
Sunrise Medical Inc.
Ventritex, Inc.
AUTOMOTIVE
Aeroquip-Vickers, Inc.
Daewoo Information
Systems Co. Ltd.
Ford Motor Corporation
Johnson Controls, Inc.
Lear Seating Corporation
R.J. Tower Corporation
Rockwell Automotive
UT Automotive, Inc.
Varity Kelsey-Hayes Company

CUSTOMER SERVICE AND SUPPORT

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

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

consultants and the Company's alliance partners helps to ensure that customers are up to date on the latest technologies and product enhancements offered by the Company.

The Company offers, for a fee, a comprehensive education and training program to its customers' information and technology staff and end-users, as well as its implementation providers. Classes are offered through in-house facilities at Company offices in various locations, as well as on-site training

services at customer locations. The Company has also assisted implementation providers and customers in developing their own in-house support centers.

COMPETITION

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

PROPRIETARY RIGHTS AND LICENSING

The Company's success is dependent upon its proprietary technology and other intellectual property. The Company relies primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect its rights in its software. The Company enters into license agreements with each of its customers. Each of the Company's license agreements provides for the non-exclusive license of the Company's MFG/PRO software. Such licenses generally are perpetual (unless terminated by either party upon 30 days written notice) and contain strict confidentiality and non-disclosure provisions, a limited warranty covering MFG/PRO software and indemnification for the customer from any infringement action related to MFG/PRO software. The pricing policy under each license is based on a standard price list and may vary based on the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and

level of ongoing support, training and services to be provided by the Company. The Company has no patents or pending patent applications. In order to

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

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

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

EMPLOYEES

As of April 30, 1997, the Company had 686 full-time employees of which 164 were in research and development, 128 were in customer and product support, 218 were in sales and marketing, and 176 were in general and administration and other. In addition, the Company contracted with approximately 100 temporary employees. None of the Company's workers is represented by collective bargaining agreements with the exception of certain of the employees of the Company's Netherlands subsidiary who are represented by statutory Works Councils as required under the laws of The Netherlands. The Company believes that its employee relations are good. The Company's success depends to a significant extent upon a limited number of key employees and other members of senior management of the Company. There can be no assurance that the Company will be successful in attracting and retaining such personnel, and the failure to attract and retain such personnel could have a material adverse effect on the Company's business. See "Risk Factors--Dependence Upon Key Personnel; Need to Hire Additional Personnel in All Areas."

PROPERTIES

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

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

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

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

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

degree in Mathematics from the University of California at Santa Barbara.

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

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

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

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

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

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

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

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

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

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

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

BOARD OF DIRECTORS

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

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

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

COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

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

EXECUTIVE COMPENSATION

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

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

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

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

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

EMPLOYEE COMPENSATION PROGRAMS

1994 STOCK PLAN

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

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

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

1997 STOCK INCENTIVE PROGRAM

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

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

The 1997 Stock Program is composed of seven parts and the Program Administrators (as defined below) may make the following types of grants under the 1997 Stock Program, each of which will be an "Award": (i) Incentive Stock Options ("ISOs") under the Incentive Stock Option Plan (the "Incentive Stock Plan"); (ii) Nonqualified Stock Options ("NSOs") under the Nonqualified Stock Option Plan (the "Nonqualified Plan"); (iii) Restricted Shares ("Restricted Shares") under the Restricted Shares Plan (the "Restricted Plan"); (iv) rights to purchase stock under the Employee Stock Purchase Plan (the "Purchase Plan"); (v) Stock Appreciation Rights ("SARs") under the Stock Appreciation Rights Plan (the "SAR Plan"); (vi) grants of options under the Non-Employee Director Stock Option Plan (the "Directors Plan"); and (vii) Other Stock Rights under the Stock Rights Plan (the "Stock Rights Plan") which may include the issuance of units

representing the equivalent of shares of Common Stock ("Performance Shares"), payments of compensation in the form of shares of Common Stock ("Stock Payments") and rights to receive cash or shares of Common Stock based on the value of dividends paid with respect to a share of Common Stock ("Dividend Equivalent Rights"). Officers, key employees, employee directors, consultants and other independent contractors or agents of the Company or its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company's business will be eligible for selection by the Program Administrators to participate in the 1997 Stock Program, provided, however, that ISOs may be granted under the Incentive Stock Plan only to a person who is an employee of the Company or its subsidiaries.

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

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

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

STOCK OPTION GRANTS

The Company has also from time to time granted stock options to employees of the Company. At April 30, 1997, the Company had stock options outstanding with respect to 1,061,000 shares of Common Stock with exercise prices ranging from $0.18 to $9.53 per share and with a weighted average exercise price of $2.28 per share. Such options generally vest over a five-year period.

CERTAIN TRANSACTIONS

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

his employment, the Company also awarded Mr. Raney 10,000 restricted shares, granted Mr. Raney options exercisable for 100,000 shares of Common Stock at an exercise price of $9.53 and agreed to a severence arrangement pursuant to which Mr. Raney is entitled to receive approximately six months salary upon involuntary termination without cause.

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

PRINCIPAL STOCKHOLDERS

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

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

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* Less than 1%

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

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

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

DESCRIPTION OF CAPITAL STOCK

Upon completion of the Offering, the authorized capital stock of the Company will consist of 150,000,000 shares of Common Stock, par value $.001 per share, and 5,000,000 shares of Preferred Stock, par value $.001 per share. As of April 30, 1997, there were 22,524,230 shares of Common Stock outstanding held by 386 stockholders, there were four shares of Class B Common Stock outstanding held by two stockholders (which shares will automatically convert into Common Stock upon completion of the Offering) and no shares of Preferred Stock were outstanding.

COMMON STOCK

The holders of Common Stock are entitled to one vote per share for the election of directors and on all other matters to be voted upon by the stockholders. Subject to preferences that may be applicable to any outstanding

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

PREFERRED STOCK

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

CERTAIN ANTI-TAKEOVER, LIMITED LIABILITY AND INDEMNIFICATION PROVISIONS

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

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

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

of the Company's then outstanding capital stock, voting together as a single class. The Bylaws may be amended by either (a) a majority of the Board of Directors or (b) the holders of a majority of the Company's voting stock, provided that certain amendments approved by stockholders require the approval of at least 66 2/3% of the voting power of the Company's then outstanding capital stock, voting together as a single class, unless such amendments are approved by a majority of the directors of the Company not affiliated or associated with any person, other than Pamela or Karl Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power of the Company's then outstanding capital stock, voting as a single class.

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

NOTICE PROCEDURES. The Bylaws of the Company establish advance notice procedures with regard to all stockholder proposals, including proposals relating to the nomination of candidates for election as directors, the removal of directors and amendments to the Certificate of Incorporation or Bylaws, to be brought before meetings of stockholders of the Company. These procedures provide

that notice of such stockholder proposals must be timely given in writing to the Secretary of the Company prior to the meeting. Generally, to be timely, the notice must be received by the Secretary of the Company not less than 90 days prior to the meeting and must contain certain other information as specified in the Bylaws.

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

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

SECTION 203 OF THE DELAWARE GENERAL CORPORATION LAW

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

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

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

LISTING

Application has been made to have the Company's Common Stock quoted on the Nasdaq National Market under the symbol "QADI."

TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

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

The directors, executive officers and certain other stockholders of the Company holding an aggregate of 20,416,172 outstanding shares of Common Stock and options to purchase 967,000 shares of Common Stock, have agreed pursuant to Lock-Up Agreements that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any shares of Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances. The representatives of the Underwriters have informed the Company that the Underwriters have no current intention to release shares from the Lock-Up Agreements prior to expiration of the 180-day term of such agreements. Any request for release would be evaluated by the representatives of the Underwriters, and the decision whether or not to permit early release of stock would be made dependent upon the facts and circumstances existing at the time of the request. Beginning upon expiration of the Lock-Up Agreements, such shares will be eligible for sale pursuant to Rule 144 or Rule 701 under the Act ("Rule 701") subject to the provisions of such rules and continued vesting. The remaining 2,108,062 outstanding shares of Common Stock and options to purchase 94,000 shares of Common Stock are not subject to Lock-Up Agreements and will become eligible for sale upon completion of the Offering, subject to the provisions of Rule 144, Rule 701 and continued vesting. Concurrent with the completion of the Offering, 490,760 of such outstanding shares of Common Stock and 44,000 of such shares underlying options will become immediately eligible for sale without additional restrictions under Rule 144 and Rule 701 and 112,060 of such outstanding shares of Common Stock held by certain affiliates of the Company will be eligible for sale pursuant to the volume, manner of sale and notice requirements of Rule 144. The Company has granted Smith Barney Inc. certain demand registration rights with respect to 6,100,000 shares of Common Stock which have been pledged in connection with a personal loan. See "Underwriting."

In general, under Rule 144 as currently in effect, a person (or persons whose stock is aggregated) who has beneficially owned stock for at least one year (including the holding period of any prior owner except an affiliate from whom such stock was purchased) is entitled to sell in "broker's transactions" or to market makers, within any three-month period commencing 90 days after the date of this Prospectus, a number of shares of stock that does not exceed the greater of (a) one percent of the number of shares of Common Stock then outstanding (approximately 2,827,000 shares immediately after the Offering, or approximately 2,914,000 shares if the U.S. Underwriters' and the Managers' over-allotment option is exercised in full), or (b) the average weekly trading volume in the Common Stock during the four calendar weeks preceding the required filing of a Form 144 with respect to such sale. Sales under Rule 144 are generally subject to the availability of current public information about the Company. Persons other than affiliates who have beneficially owned such stock for at least two years are not subject to the notice, manner of sale, volume or public information requirements and may sell such shares immediately following the Offering. Under Rule 701, persons who purchase stock upon exercise of options granted prior to the effective date of the Offering or who purchased stock from the Company pursuant to a written compensatory benefit plan or contract are entitled to sell such stock 90 days after the effective date of the

Offering in reliance on Rule 144 without having to comply with the holding period requirements of Rule 144 and, in the case of

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

Approximately 30 days after the date of this Prospectus, the Company intends to file registration statements on Form S-8 covering the shares of Common Stock that have been reserved for issuance under the 1997 Stock Program, thus permitting the resale of such stock in the public market without restriction under the Act, subject, however, to Lock-Up Agreements with respect to such stock.

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

CERTAIN U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

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

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

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

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

DIVIDENDS

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

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

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

GAIN ON DISPOSITION

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

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

INFORMATION REPORTING REQUIREMENTS AND BACKUP WITHHOLDING

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

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

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

FEDERAL ESTATE TAX

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

UNDERWRITING

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

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

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

MANAGERS	NUMBER OF SHARES
Smith Barney Inc.	
Cowen & Company	
Robertson, Stephens & Company LLC	
Total	1,150,000

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

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

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

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

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

Each of the directors and executive officers of the Company, and certain other stockholders of the Company as designated by Smith Barney Inc. have agreed that, for a period of 180 days from the date of this Prospectus, they will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell, or otherwise dispose of, any Common Stock or any securities convertible into, or exercisable or exchangeable for Common Stock, or grant any options or warrants to purchase Common Stock, except in certain circumstances.

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

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

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

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

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

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

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

Smith Barney Inc. has demand registration rights with respect to 6,100,000 shares of the Company's Common Stock which were pledged by Pamela and Karl Lopker to Smith Barney Inc. as collateral for a personal loan which Smith Barney Inc. provided to them. In the event of a default of the loan, the registration rights enable Smith Barney Inc. to demand registration of the shares by the Company to cover payment of principal and interest outstanding under the loan.

PRICE OF THE OFFERING

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

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

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

LEGAL MATTERS

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

EXPERTS

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

such report given upon the authority of such firm as experts in accounting and auditing.

ADDITIONAL INFORMATION

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

QAD INC.
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
QAD Inc.:

We have audited the consolidated financial statements of QAD Inc. and subsidiaries as listed in the accompanying index. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and

subsidiaries as of January 31, 1997 and January 31, 1996 and the results of their operations and their cash flows for the years ended January 31, 1997, December 31, 1995 and December 31, 1994 and the one month ended January 31, 1996 in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Los Angeles, California

April 11, 1997

QAD INC.
CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

	JANUARY 31, 1996	JANUARY 31, 1997	APRIL 30, 1997 (UNAUDITED)
ASSETS			
Current assets:			
Cash	$ 1,463	$ 301	$ 1,306
Trade accounts receivable, net of allowances of $2,280, $3,694 and $3,646 for January 31, 1996, 1997, and April 30, 1997, respectively	35,236	46,745	43,854
Income tax receivable	--	--	166
Deferred income taxes	3,610	4,183	2,702
Other current assets	1,741	2,112	4,172
Total current assets	42,050	53,341	52,200
Property and equipment, net	19,058	18,071	19,324
Other assets, net	2,037	3,051	4,836
Deferred income taxes	1,962	2,787	4,833
Total assets	$ 65,107	$ 77,250	$ 81,193
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable and current installments of long-term debt	$ 11,694	$ 8,465	$ 15,143
Accounts payable	9,525	12,516	12,238
Accrued expenses	5,489	9,626	6,875
Income taxes payable	288	741	--
Deferred revenue and deposits	20,904	28,602	30,160
Total current liabilities	47,900	59,950	64,416
Long-term debt, less current installments	7,097	5,036	4,320
Deferred revenue - noncurrent	981	991	756
Other deferred liabilities	--	379	641
Minority interest	106	90	108
Stockholders' equity:			
Preferred stock, Authorized 5,000,000 shares; none issued and outstanding	--	--	--
Common stock, no par value. Authorized 150,000,000 shares; issued and outstanding 20,978,754 shares at January 31, 1996, 22,218,572 shares at January 31, 1997 and 22,524,234 shares at April 30, 1997	2,223	5,942	6,554
Retained earnings	6,539	7,539	8,099
Receivable from stockholders	(151)	(197)	(642)
Unearned compensation -- restricted stock	--	(2,129)	(2,255)
Cumulative foreign currency translation adjustment	412	(351)	(804)
Total stockholders' equity	9,023	10,804	10,952
Total liabilities and stockholders' equity	$ 65,107	$ 77,250	$ 81,193

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT FOR SHARE DATA)

ONE MONTH

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997	ENDED JANUARY 31, 1996	THREE MONTHS ENDED APRIL 30, 1996 (UNAUDITED)	THREE MONTHS ENDED APRIL 30, 1997 (UNAUDITED)
Revenue:						
License fees	$ 48,665	$ 63,756	$ 85,753	$ 993	$ 11,070	$ 19,149
Maintenance and other	17,695	26,193	40,691	2,479	9,046	12,924
Total revenues	66,360	89,949	126,444	3,472	20,116	32,073
Cost and expenses:						
Cost of revenues	14,896	20,102	24,401	1,375	5,831	8,958
Sales and marketing	17,764	36,232	52,099	3,166	13,550	13,566
Research and development	14,577	19,796	28,689	1,754	6,658	5,675
General and administrative	15,039	16,465	18,933	1,051	4,277	3,557
Total cost and expenses	62,276	92,595	124,122	7,346	30,316	31,756
Operating income (loss)	4,084	(2,646)	2,322	(3,874)	(10,200)	317
Other (income) expense:						
Interest income	(34)	(38)	(52)	--	--	(48)
Interest expense	462	825	1,657	126	429	435
Other	(99)	48	(797)	(61)	(146)	(803)
Total other (income) expense	329	835	808	65	283	(416)
Income (loss) before income taxes	3,755	(3,481)	1,514	(3,939)	(10,483)	733
Income tax expense (benefit)	877	(2,795)	514	(1,078)	(3,166)	173
Net income (loss)	$ 2,878	$ (686)	$ 1,000	$ (2,861)	$ (7,317)	$ 560
Net income (loss) per share	$ 0.12	$ (0.03)	$ 0.04	$ (0.13)	$ (0.33)	$ 0.02
Weighted average number of shares used in computing net income (loss) per share	23,886,878	21,888,583	23,533,877	22,018,373	22,166,665	24,014,963

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

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

(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

	COMMON STOCK		RETAINED	RECEIVABLE FROM	RESTRICTED STOCK	
	SHARES	AMOUNT	EARNINGS	STOCKHOLDERS	SHARES	AMOUNT
Balance, December 31, 1993	20,000,000	$ 30	$ 7,208	$ --	--	$ --
Common Stock Issued:						
Under stock purchase plan	813,864	1,812	--	--	--	--
Under stock options	--	--	--	--	--	--
Pursuant to performance awards	59,600	131	--	--	--	--
Common stock repurchases	(68,606)	(168)	--	--	--	--
Translation adjustments	--	--	--	--	--	--
Net income (loss)	--	--	2,878	--	--	--
Balance, December 31, 1994	20,804,858	1,805	10,086	--	--	--
Common Stock Issued:						
Under stock purchase plan	250,750	601	--	--	--	--
Under stock options	1,024,000	74	--	--	--	--
Pursuant to performance awards	148,514	336	--	--	--	--
Tax benefit associated with stock option exercise	--	--	--	--	--	--
Common stock repurchases	(1,262,370)	(624)	--	--	--	--
Receivable from stockholders	--	--	--	(151)	--	--
Translation adjustments	--	--	--	--	--	--
Net income (loss)	--	--	(686)	--	--	--
Balance, December 31, 1995	20,965,752	2,192	9,400	(151)	--	--
Common Stock Issued:						
Pursuant to performance awards	23,722	57	--	--	--	--
Common stock repurchases	(10,720)	(26)	--	--	--	--
Translation adjustments	--	--	--	--	--	--
Net income (loss)	--	--	(2,861)	--	--	--
Balance, January 31, 1996	20,978,754	2,223	6,539	(151)	--	--
Common Stock Issued:						
Under stock purchase plan	793,438	1,411	--	--	--	--
Under stock options	105,000	185	--	--	--	--
Pursuant to performance awards	108,062	256	--	--	--	--
Pursuant to restricted stock awards	559,066	2,584	--	--	(559,066)	(2,584)
Common stock earned under restricted stock awards	--	--	--	--	149,954	455

Common stock repurchases	(325,748)	(717)	--	--	--	--
Receivable from stockholders	--	--	--	(46)	--	--
Translation adjustments	--	--	--	--	--	--
Net income (loss)	--	--	1,000	--	--	--
Balance, January 31, 1997	22,218,572	5,942	7,539	(197)	(409,112)	(2,129)
Common Stock Issued (unaudited):						
Under stock purchase plan	211,760	2,017	--	--	--	--
Under stock options	299,000	709	--	--	--	--
Pursuant to performance awards	62,060	431	--	--	--	--
Pursuant to restricted stock awards	20,400	194	--	--	(20,400)	(194)
Common stock earned under restricted stock awards	--	--	--	--	16,966	68
Common stock repurchases (unaudited)	(287,558)	(2,739)	--	--	--	--
Receivable from stockholders (unaudited)	--	--	--	(445)	--	--
Translation adjustments (unaudited)	--	--	--	--	--	--
Net income (loss) (unaudited)	--	--	560	--	--	--
Balance, April 30, 1997	22,524,234	$ 6,554	$ 8,099	$ (642)	(412,546)	$ (2,255)

	CUMULATIVE TRANSLATION ACCOUNT	TOTAL STOCKHOLDERS' EQUITY
Balance, December 31, 1993	$ (140)	$ 7,098
Common Stock Issued:		
Under stock purchase plan	--	1,812
Under stock options	--	--
Pursuant to performance awards	--	131
Common stock repurchases	--	(168)
Translation adjustments	242	242
Net income (loss)	--	2,878
Balance, December 31, 1994	102	11,993
Common Stock Issued:		
Under stock purchase plan	--	601
Under stock options	--	74
Pursuant to performance awards	--	336
Tax benefit associated with stock option exercise	--	--
Common stock repurchases	--	(624)
Receivable from stockholders	--	(151)
Translation adjustments	189	189
Net income (loss)	--	(686)
Balance, December 31, 1995	291	11,732
Common Stock Issued:		
Pursuant to performance awards	--	57
Common stock repurchases	--	(26)
Translation adjustments	121	121
Net income (loss)	--	(2,861)
Balance, January 31, 1996	412	9,023
Common Stock Issued:		
Under stock purchase plan	--	1,411
Under stock options	--	185
Pursuant to performance awards	--	256
Pursuant to restricted stock awards	--	--
Common stock earned under restricted stock awards	--	455
Common stock repurchases	--	(717)
Receivable from stockholders	--	(46)
Translation adjustments	(763)	(763)
Net income (loss)	--	1,000
Balance, January 31, 1997	(351)	10,804
Common Stock Issued (unaudited):		
Under stock purchase plan	--	2,017
Under stock options	--	709
Pursuant to performance awards	--	431
Pursuant to restricted stock awards	--	--
Common stock earned under restricted stock awards	--	68
Common stock repurchases (unaudited)	--	(2,739)
Receivable from stockholders (unaudited)	--	(445)
Translation adjustments (unaudited)	(453)	(453)
Net income (loss) (unaudited)	--	560
Balance, April 30, 1997	$ (804)	$ 10,952

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

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

(Continued)

QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(IN THOUSANDS)

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

Supplemental disclosure of noncash investing and financing activities:

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

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

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

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

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

PRINCIPLES OF CONSOLIDATION

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

INTERIM FINANCIAL INFORMATION

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

CONCENTRATIONS OF CREDIT RISK

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

USE OF ESTIMATES

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
REVENUE RECOGNITION

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

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

DEPRECIATION AND AMORTIZATION

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

COMPUTER SOFTWARE COSTS

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

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

Accrued expenses are as follows:

	JANUARY 31,

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

INCOME TAXES

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

COMPUTATION OF NET INCOME (LOSS) PER SHARE

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

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

Pursuant to the requirements of the Securities and Exchange Commission, common stock and common stock equivalents issued by the Company during the 12 months immediately preceding an initial public offering are to be included in the calculation of the weighted average shares outstanding for all periods presented using the treasury-stock method, based on the estimated offering price, for stock options. Accordingly, weighted average shares of common stock and common stock equivalents outstanding include 788,339 shares as a result of common stock and stock options issued prior to the initial public offering and are shown as outstanding for all periods presented.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For all loss periods presented, stock options issued prior to the 12 months preceding the initial public offering date are excluded from the computation for loss periods as their inclusion would be antidilutive.

FOREIGN CURRENCY TRANSLATION

The functional currency of each foreign subsidiary is its own local currency. Accordingly, in consolidation, assets and liabilities are translated

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

LONG-LIVED ASSETS

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

ACCOUNTING FOR STOCK OPTIONS

Prior to January 1, 1996, the Company accounted for its stock option grants in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits

entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995, 1996 and future years as if the fair value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Standards Board issued SFAS No. 128, "Earnings Per Share." SFAS No. 128 specifies new standards designed to improve the earnings per share ("EPS") information provided in financial statements by simplifying the existing computational guidelines, `revising the disclosure

requirements and increasing the comparability of EPS data on an international basis. Some of the changes made to simplify the EPS computations include: (a) eliminating the presentation of primary EPS and replacing it with basic EPS, with the principal difference being that common stock equivalents are not considered in computing basic EPS, (b) eliminating the modified treasury stock method and the three percent materiality provision and (c) revising the contingent share provision and the supplemental EPS data requirements. SFAS No. 128 also makes a number of changes to existing disclosure requirements. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods. The Company has not determined the impact of the implementation of SFAS No. 128.

2. PROPERTY AND EQUIPMENT

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

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

2. PROPERTY AND EQUIPMENT (CONTINUED)

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

3. OTHER ASSETS

Other assets at January 31, 1996, January 31, 1997 and April 30, 1997 include capitalized software development costs of $858,000, $1,065,000 and $1,218,000 (net of $1,671,000, $2,341,000 and $2,511,000 of accumulated amortization), respectively. Amortization of these costs totaled $550,000, $694,000, $671,000 and $61,000 during the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and one month ended January 31, 1996, respectively. For the interim periods ended April 30, 1996 and 1997, such costs aggregated $168,000 and $172,000, respectively. Amortization costs are included in cost of revenues. Software development costs incurred prior to achieving technological feasibility are expensed as incurred as research and development. Such costs aggregated $14,577,000, $19,796,000, $28,689,000 and $1,754,000 for the years ended December 31, 1994, December 31, 1995 and January 31, 1997 and one month ended January 31, 1996, respectively. For the interim periods ended April 30, 1996 and 1997, such costs aggregated $6,658,000 and $5,675,000, respectively.

4. NOTES PAYABLE AND LONG-TERM DEBT

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

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

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

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

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

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

Year ending January 31:	
1998	$ 8,465
1999	2,615
2000	1,221
2001	800
2002	400
	$ 13,501

5. DEFERRED REVENUE

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

6. INCOME TAXES

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

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

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

6. INCOME TAXES (CONTINUED)

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

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

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

6. INCOME TAXES (CONTINUED)

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

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

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

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

	YEAR ENDED	YEAR ENDED	YEAR ENDED	ONE MONTH ENDED

	DECEMBER 31, 1994	DECEMBER 31, 1995	JANUARY 31, 1997	JANUARY 31, 1996
Computed expected tax expense (benefit)	$ 1,277	$ (1,183)	$ 515	$ (1,339)
State income taxes, net of Federal income tax benefit	153	(209)	91	(236)
Tax expense from foreign operations	385	--	117	649
Alternative minimum tax ("AMT")	--	182	--	--
Net change in deferred tax assets and liabilities	(643)	(1,856)	918	(87)
Meals and entertainment	232	279	286	9
Foreign sales corporation	242	1,030	(539)	--
Research, AMT and foreign tax credits	(900)	(1,386)	(1,208)	(174)
Other	131	348	334	100
	$ 877	$ (2,795)	$ 514	$ (1,078)

7. 401(K) PLAN

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

8. COMMITMENTS AND CONTINGENCIES

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

	CAPITAL LEASES	OPERATING LEASES
Year ending January 31:		
1998	$ 259	$ 4,730
1999	40	3,533
2000	3	2,450
2001	--	1,209
2002	--	700
Total minimum lease payments	302	$ 12,622
Less amount representing interest at rates ranging from 11% to 14.5%	(17)	
Present value of minimum lease payments	$ 285	

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

9. GEOGRAPHIC INFORMATION

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

	YEAR ENDED DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED JANUARY 31, 1997
Revenue:			
U.S.	$ 36,380	$ 49,955	$ 73,519
International	29,980	39,994	52,925
	$ 66,360	$ 89,949	$ 126,444
Operating income (loss):			
U.S.	$ 5,014	$ 1,060	$ 6,250
International	(930)	(3,706)	(3,928)
	$ 4,084	$ (2,646)	$ 2,322

	JANUARY 31, 1996	JANUARY 31, 1997
Identifiable assets:		
U.S.	$ 36,661	$ 46,515
International	28,446	30,735
	$ 65,107	$ 77,250

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

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

EMPLOYEE STOCK OPTION AGREEMENTS

The Company has stock option agreements with certain key employees. As of January 31, 1997 and April 30, 1997, options to purchase 1,121,000 and 1,061,000 shares of common stock had been granted and were outstanding at an average price of $0.18 and $2.28 per share, respectively. All options outstanding at January 31, 1997 were exercisable. Outstanding options generally vest over a five-year period. Transactions in stock options are summarized as follows:

	SHARES	WEIGHTED AVERAGE PRICE
Outstanding options at December 31, 1993	2,350,000	$ 0.18
Options issued	--	
Options exercised	--	
Options expired and terminated	--	
Outstanding options at December 31, 1994	2,350,000	0.18
Options issued	--	
Options exercised	(1,024,000)	0.02
Options expired and terminated	--	
Outstanding options at December 31, 1995	1,326,000	0.31

Options issued	--	
Options exercised	--	
Options expired and terminated	--	
Outstanding options at January 31, 1996	1,326,000	0.31
Options issued	--	
Options exercised	(105,000)	0.40
Options expired and terminated	(100,000)	1.61
Outstanding options at January 31, 1997	1,121,000	0.18
Options issued	239,000	9.53
Options exercised	(299,000)	0.21
Options expired and terminated	--	
Outstanding options at April 30, 1997	1,061,000	$ 2.28

During 1995, the Company repurchased 1,000,000 shares issued to an employee immediately upon exercise of stock options. Accordingly, the Company recorded compensation expense of $2,407,788 in the accompanying consolidated financial statements for the year ended December 31, 1995. Additionally, during the year ended January 31, 1997 certain employees holding vested options with respect to 70,000 shares at an average of $0.27 per share noticed their intention to terminate employment. The Company determined that it would reacquire the shares which would be issued to the employees. Accordingly, $647,800 of compensation expense representing the difference between exercise price and acquisition cost, has been accrued as compensation expense at January 31, 1997.

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

1994 STOCK OWNERSHIP PROGRAM

The Company has also established the QAD Inc. 1994 Stock Ownership Program (the "Plan") covering 4,800,000 shares of its common stock. Subject to certain limitations, the Plan allows eligible employees to purchase shares of common stock at the fair market value of the common stock by direct cash payment or at 95% of the fair market value through payroll deduction. The Company has the right, but not the obligation, to repurchase shares at fair value upon the termination of employment. During the years ended December 31, 1994, December 31, 1995, and January 31, 1997 and the three months ended April 30, 1997, 813,864, 250,750, 793,438 and 211,760 shares, respectively, were issued under the Plan at average prices of $2.23, $2.40, $1.78 and $9.52, respectively. No shares were issued under the Plan in January 1996.

During the year ended January 31, 1997 and the three months ended April 30, 1997, respectively, 559,066 and 20,400 restricted shares of the Company's common stock were granted to certain employees. The fair market value of shares awarded was $2,584,000 and $194,000, respectively. These amounts were recorded as unearned compensation--restricted stock, shown as a separate component of stockholders' equity. Unearned compensation is being amortized to expense over the periods in which the restrictions lapse, generally one to three years from date of award. Such expenses amounted to $788,000 and $324,000 in the year ended January 31, 1997 and the three months ended April 30, 1997, respectively, $333,000 and $256,000 of which is included in accrued compensation, respectively, and $455,000 and $68,000 of which has been recorded as a reduction in unearned compensation--restricted stock as the restricted shares are issued to employees.

During the years ended December 31, 1994, December 31, 1995 and January 31, 1997, and one month ended January 31, 1996, the Company granted unrestricted shares to certain employees having a fair value of $131,000, $336,000, $256,000 and $57,000 at date of grant, respectively. Compensation expense has been

recognized in each period for the fair value of such stock grants. Unrestricted stock grants in the three months ended April 30, 1997 totaled $431,000 and are included under costs and expenses for the period.

1997 STOCK INCENTIVE PROGRAM (UNAUDITED)

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

The first part is the Incentive Stock Option Plan under which are granted incentive stock options. The second part is the NonQualified Stock Option Plan under which are granted nonqualified stock options. The third part is the Restricted Share Plan under which are granted restricted shares of Common Stock. The fourth part is the Employee Stock Purchase Plan. The fifth part is the Non-Employee Director Stock Option Plan under which grants of options to purchase shares of Common Stock may be made to non-employee directors of the Company. The sixth part is the Stock Appreciation Rights Plan under which SARs (as defined therein) are granted. The seventh part is the Other Stock Rights Plan under which (i) units representing the equivalent shares of Common Stock are granted; (ii) payments of compensation in the form of shares of Common Stock are granted; and (iii) rights to receive cash or shares of Common Stock based on the value of dividends paid with respect to a share of Common Stock are granted. The

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

maximum aggregate number of shares of Common Stock subject to the Program is 4,000,000 shares. The Program will be valid for 10 years from the date of adoption.

RECEIVABLE FROM STOCKHOLDERS

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

11. INVESTMENT

In March 1997, the Company acquired an interest in a high technology company for an aggregate purchase price of $1.0 million, $400,000 of which had been advanced at January 31, 1997. The Company has an option to acquire an additional interest in the business for an aggregate purchase price of $2.0 million, which option expires no later than September 15, 1997. Should the option be exercised, the Company will own a 33% interest in the enterprise.

12. SUBSEQUENT EVENT AND PLANNED STOCK SPLIT

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

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

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

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

5,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

, 1997

SMITH BARNEY INC.
COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

SUBJECT TO COMPLETION, DATED JUNE 3, 1997

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

P R O S P E C T U S

5,750,000 SHARES

[LOGO]

COMMON STOCK

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

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

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

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

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

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

(1) For information regarding indemnification of the Managers and the U.S.

Underwriters, see "Underwriting."

(2) Before deducting estimated offering expenses of $1,800,000, payable by the Company.

(3) The Company has granted the several U.S. Underwriters and the several Managers a 30-day option to purchase up to 862,500 additional shares of Common Stock solely to cover over-allotments, if any. See "Underwriting." If such option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions and Proceeds to Company will be $, $ and $, respectively.

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

SMITH BARNEY INC.

COWEN & COMPANY

ROBERTSON, STEPHENS & COMPANY

, 1997

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

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

5,750,000 SHARES

[LOGO]

COMMON STOCK

P R O S P E C T U S

, 1997

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

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PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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

Registration Fee	$ 28,054
NASD Filing Fee	9,758
Nasdaq Stock Market Listing Fees	50,000
Printing and Engraving Expenses	150,000
Blue Sky Fees and Expenses (including counsel fees)	5,000
Legal Fees and Expenses	600,000
Consulting Fees	250,000
Accounting Fees and Expenses	175,000
Transfer Agent and Registrar Fees	4,500
Directors and Officers' Insurance	400,000
Miscellaneous	127,688
Total	$1,800,000

- ---

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

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under Section 145 of the General Corporate Law of the State of Delaware, the Registrant has broad powers to indemnify its directors and officers against

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

The Registrant's Certificate of Incorporation (Exhibit 3.5 hereto) limits the personal liability of its directors (in their capacity as directors but not in their capacity as officers) to the Registrant or its stockholders to the fullest extent permissible under Delaware law. Specifically, directors of the Registrant will not be personally liable for monetary damages for breach of a director's fiduciary duty, except for liability (i) for any breach of the director's duty of loyalty to the Registrant and its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for any transaction from which the director derived an improper personal benefit or (iv) for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law.

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

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

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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

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

1994 STOCK OWNERSHIP PROGRAM

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

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

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

(iii) in 1996 certain employees purchased an aggregate of 619,722 shares of Common Stock at purchase prices ranging from $1.47 to $2.22 per share and the Registrant made stock awards of 519,468 shares of Common Stock under the 1994 Stock Ownership Program to certain employees; and

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

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

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

STOCK OPTION AGREEMENTS

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

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

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

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

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

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

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

1.1 Form of U.S. Underwriting Agreement

1.2 Form of International Underwriting Agreement

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

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

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

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

3.5 Form of Certificate of Incorporation of the Registrant to be adopted upon reincorporation in Delaware*

3.6 Bylaws of QAD California

3.7 Bylaws to be adopted effective upon reincorporation in Delaware*

4.1 Specimen Stock Certificate*

5.1 Opinion of Nida & Maloney, a Professional Corporation*

10.1 QAD Inc. 1994 Stock Ownership Program

10.2 QAD Inc. 1997 Stock Incentive Program

10.3 Form of Indemnification Agreement with Directors and Executive Officers*

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

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

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

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

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

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10.16 First Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites C and H located at 5464 Carpinteria Ave., Carpinteria, California dated September 9, 1993*

10.17 Second Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite J located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994*

10.18 Third Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites B and C located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994*

10.19 Fourth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite H located at 5464 Carpinteria Ave., Carpinteria, California dated February 15, 1994*

10.20 Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994*

10.21 Sixth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites A, B, D, F and H, and Room A located at 5464 Carpinteria Ave., Carpinteria, California dated October 30, 1996*

10.22 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993*

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10.34 Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 7 and 10 located at 6420 Via Real, Carpinteria, California dated January 27, 1997*

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10.37 Amendment to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated April 26, 1994*

10.38 Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995*

10.39 Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995*

21.1 Subsidiaries of the Registrant

23.1 Consent of KPMG Peat Marwick LLP and opinion on Schedule II

23.2 Consent of Nida & Maloney, a Professional Corporation (included in Exhibit 5.1)*

24.1 Power of Attorney (see page II-7)

27.1 Financial Data Schedule

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* To be filed by amendment.

\+ Confidential treatment is being requested.

(b) Financial Statement Schedules

Schedule II--Valuation and Qualifying Accounts

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

ITEM 17. UNDERTAKINGS

The undersigned Registrant hereby undertakes:

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

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under Item 14 above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 403(a) and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered

therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Carpinteria, California, on June 3, 1997.

QAD, INC.

By: /s/ PAMELA M. LOPKER
Pamela M. Lopker
Chairman of the Board and President

POWER OF ATTORNEY

We, the undersigned officers and directors of QAD Inc., do hereby constitute and appoint Karl F. Lopker and Dennis R. Raney, and each of them, our true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Registration Statement, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ PAMELA M. LOPKER Pamela M. Lopker	Chairman of the Board and President (Principal Executive Officer)	June 3, 1997
/s/ KARL F. LOPKER Karl F. Lopker	Director and Chief Executive Officer	June 3, 1997
/s/ EVAN M. BISHOP Evan M. Bishop	Director	June 3, 1997
/s/ DENNIS R. RANEY Dennis R. Raney	Senior Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	June 3, 1997

SCHEDULE II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	DELETIONS(1)	ADJUSTMENTS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts and sales					

returns					
Year ended:					
December 31, 1994	$ 2,108	$ 1,333	$ (964)	$ 51	$ 2,528
December 31, 1995	2,528	945	(1,209)	34	2,298
January 31, 1997	2,280	3,432	(1,983)	(35)	3,694
One month ended:					
January 31, 1996	2,298	(25)	--	7	2,280
Three months ended:					
April 30, 1996 (unaudited)	2,280	701	(684)	(16)	2,281
April 30, 1997 (unaudited)	3,694	585	(524)	(109)	3,646

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(1) Actual write-offs and product returns.

EXHIBIT INDEX

EXHIBIT	DESCRIPTION	FILED (F)
1.1	Form of U.S. Underwriting Agreement	F
1.2	Form of International Underwriting Agreement	F
3.1	Restated Articles of Incorporation of QAD Inc., a California corporation ("QAD California"), filed with the California Secretary of State on December 15, 1993	F
3.2	Certificate of Amendment of QAD California filed on March 23, 1994	F
3.3	Certificate of Amendment of QAD California filed on July 10, 1996	F
3.4	Certificate of Amendment of QAD California filed on February 10, 1997	F
3.5	Form of Certificate of Incorporation of the Registrant to be adopted upon reincorporation in Delaware	*
3.6	Bylaws of QAD California	F
3.7	Bylaws to be adopted effective upon reincorporation in Delaware	*
4.1	Specimen Stock Certificate	*
5.1	Opinion of Nida & Maloney, a Professional Corporation	*
10.1	QAD Inc. 1994 Stock Ownership Program	F
10.2	QAD Inc. 1997 Stock Incentive Program	F
10.3	Form of Indemnification Agreement with Directors and Executive Officers	*
10.4	Loan and Security Agreement between Greyrock Business Credit, a Division of Nations Credit Commercial Corporation ("GBC") and the Registrant dated July 3, 1996	F
10.5	Schedule to Loan Agreement between GBC and the Registrant dated July 3, 1996	F
10.6	Letter Agreement between the Registrant and GBC dated July 3, 1996	F
10.7	Letter Agreement between the Registrant and GBC dated July 5, 1996	F
10.8	Letter Agreement between the Registrant and GBC dated July 5, 1996	F
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21.1	Subsidiaries of the Registrant	F
23.1	Consent of KPMG Peat Marwick LLP	F
23.2	Consent of Nida & Maloney, a Professional Corporation (included in Exhibit 5.1)	*
24.1	Power of Attorney (see page II-7)	F
27.1	Financial Data Schedule	F

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* To be filed by amendment.

\+ Confidential treatment is being requested.

5,750,000 Shares

QAD INC.

Common Stock

U.S. UNDERWRITING AGREEMENT

June ___, 1997

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

As Representatives of the Several Underwriters

c/o SMITH BARNEY INC.
333 West 34th Street
New York, New York 10001

Dear Sirs:

QAD Inc., a Delaware corporation (the "Company"), proposes to issue and sell an aggregate of 4,600,000 shares of its common stock, par value $0.001 per share (the "Firm Shares"), to the several Underwriters named in Schedule I hereto (the "U.S. Underwriters") for whom Smith Barney Inc., Cowen & Company and Robertson, Stephens & Company LLC are acting as representatives (the "Representatives"). In addition, solely for the purpose of covering over-allotments, the Company proposes to sell to the U.S. Underwriters, upon the terms and conditions set forth in Section 2 hereof, up to an additional 690,000 shares (the "Additional Shares") of the Company's common stock. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The Company's common stock, par value $0.001 per share, including the Shares and the International Shares (as defined herein), is hereinafter referred to as the "Common Stock."

It is understood that the Company is concurrently entering into an International Underwriting Agreement, dated the date hereof (the "International Underwriting Agreement"), providing for the sale by the Company of 1,150,000 shares of the Common Stock (the "Firm International Shares") (plus an option granted by the Company to purchase up to an additional 172,500

shares of Common Stock (the "Additional International Shares") solely for the purpose of covering over-allotments), through arrangements with certain underwriters outside the United States and Canada (the "Managers"), for whom Smith Barney Inc., Cowen & Company and Robertson, Stephens & Company LLC are acting as lead Managers (the "Lead Managers"). All shares of Common Stock proposed to be offered to the Managers pursuant to the International Underwriting Agreement, including the Firm International Shares and the Additional International Shares, are herein called the "International Shares"; the International Shares and the Shares, collectively, are herein called the "Underwritten Shares."

The Company also understands that the Representatives and the Lead Managers have entered into an agreement (the "Agreement Between U.S. Underwriters and Managers") contemplating the coordination of certain transactions between the U.S. Underwriters and the Managers and that, pursuant thereto and subject to the conditions set forth therein, the U.S. Underwriters may purchase from the Managers a portion of the International Shares or sell to the Managers a portion of the Shares. The Company understands that any such purchases and sales between the U.S. Underwriters and the Managers shall be governed by the Agreement Between U.S. Underwriters and Managers and shall not be governed by the terms of this Agreement or the International Underwriting Agreement.

The Company wishes to confirm as follows its agreement with you and the other several Underwriters on whose behalf you are acting, in connection

with the several purchases of the Shares by the Underwriters.

1. REGISTRATION STATEMENT AND PROSPECTUS. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-1, including prospectuses subject to completion, relating to the Underwritten Shares. The term "Registration Statement" as used in this Agreement means the registration statement (including all financial schedules and exhibits), as amended at the time it becomes effective, and as thereafter amended by post-effective amendment. The term "Prospectuses" as used in this Agreement means the prospectuses in the forms included in the Registration Statement, or, if the prospectuses included in the Registration Statement omit information in reliance on Rule 430A under the Act and such information is included in prospectuses filed with the Commission pursuant to Rule 424(b) under the Act, the term "Prospectuses" as used in this Agreement means the prospectuses in the forms included in the Registration Statement as supplemented by the addition of the Rule 430A information contained in the prospectuses filed with the Commission pursuant to Rule 424(b). The term "Prepricing Prospectuses" as used in this Agreement means the prospectuses subject to completion in the forms included in the Registration Statement at the time of the initial filing of the Registration Statement with the Commission, and as such prospectuses shall have been amended from time to time prior to the date of the Prospectuses.

It is understood that two forms of Prepricing Prospectus and two forms of Prospectus are to be used in connection with the offering and sale of the Underwritten Shares: a Prepricing Prospectus and a Prospectus relating to the Shares that are to be offered and sold in the United States (as defined herein) or Canada (as defined herein) to U.S. or Canadian Persons (the "U.S. Prepricing Prospectus" and the

"U.S. Prospectus," respectively), and a Prepricing Prospectus and a Prospectus relating to the International Shares which are to be offered and sold outside the United States or Canada to persons other than U.S. or Canadian Persons (the "International Prepricing Prospectus" and the "International Prospectus," respectively). The U.S. Prospectus and the International Prospectus are herein collectively called the "Prospectuses," and the U.S. Prepricing Prospectus and the International Prepricing Prospectus are herein called the "Prepricing Prospectuses." For purposes of this Agreement: "Rules and Regulations" means the rules and regulations adopted by the Commission under either the Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as applicable; "U.S. or Canadian Person" means any resident or national of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada or any estate or trust the income of which is subject to United States or Canadian income taxation regardless of the source of its income (other than the foreign branch of any U.S. or Canadian Person), and includes any United States or Canadian branch of a person other than a U.S. or Canadian Person; "United States" means the United States of America (including the states thereof and the District of Columbia) and its territories, its possessions and other areas subject to its jurisdiction; and "Canada" means Canada and its territories, its possessions and other areas subject to its jurisdiction.

2. AGREEMENTS TO SELL AND PURCHASE. Upon the basis of the representations, warranties and agreements of the Company contained herein, and subject to all the terms and conditions set forth herein, and to such adjustments as you may determine to avoid fractional shares, the Company hereby agrees to issue and sell to each U.S. Underwriter and each U.S. Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of $____ per share (the "purchase price per share"), the number of Firm Shares that bears the same proportion to the aggregate number of Firm Shares to be issued and sold by the Company as the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 10 hereof) bears to the aggregate number of Firm Shares to be sold by the Company.

The Company also agrees, subject to all the terms and conditions set forth herein, to sell to the U.S. Underwriters, and, upon the basis of the representations, warranties and agreements of the Company herein contained

and subject to all the terms and conditions set forth herein, the U.S. Underwriters shall have the right to purchase from the Company at the purchase price per share, pursuant to an option (the "over-allotment option") which may be exercised prior to 5:00 p.m., New York City time, on the 30th day after the date of the U.S. Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the New York Stock Exchange is open for trading), up to an aggregate of 690,000 Additional Shares from the Company. Additional Shares may be purchased only for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. Upon any exercise of the over-allotment option, each U.S. Underwriter, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments as you may determine to avoid fractional shares) that bears the same proportion to the number of Additional Shares to be sold by the Company set forth opposite the name of such U.S. Underwriter in Schedule I hereto (or such number of Firm Shares increased or set forth in Section 10 hereof) bears to the aggregate number of Firm Shares to be sold by the Company.

3. TERMS OF PUBLIC OFFERING. The Company has been advised by you that the U.S. Underwriters propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable and initially to offer the Shares upon the terms set forth in the U.S. Prospectus.

4. DELIVERY OF THE SHARES AND PAYMENT THEREFOR. Delivery to the U.S. Underwriters of and payment for the Firm Shares shall be made at the office of Smith Barney Inc., 333 West 34th Street, New York, NY 10001, at 10:00 A.M., New York City time, on _____, 1997 (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement among you and the Company.

Delivery to the U.S. Underwriters of and payment for any Additional Shares to be purchased by the U.S. Underwriters shall be made at the aforementioned office of Smith Barney Inc. at such time on such date (the "Option Closing Date"), which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than two nor later than ten business days after the giving of the notice hereinafter referred to, as shall be specified in a written notice from you on behalf of the U.S. Underwriters to the Company of the U.S. Underwriters' determination to purchase a number, specified in such notice, of Additional Shares. The place of closing for any Additional Shares and the Option Closing Date for such Shares may be varied by agreement between you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and in such denominations as you shall request by written notice, it being understood that a facsimile transmission shall be deemed written notice, prior to 9:30 A.M., New York City time, on the second business day preceding the Closing Date or any Option Closing Date, as the case may be. Such certificates shall be made available to you in New York City for inspection and packaging not later than 9:30 A.M., New York City time, on the business day next preceding the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, against payment of the purchase price therefor by certified or official bank checks payable in New York Clearing House (next day) funds to the order of the Company.

5. AGREEMENTS OF THE COMPANY. The Company agrees with the several U.S. Underwriters as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the Company will endeavor to cause the Registration Statement or such post-effective amendment to become effective as soon as possible and will advise you promptly and,

if requested by you, will confirm such advice in writing, when the Registration Statement or such post-effective amendment has become effective.

(b) The Company will advise you promptly and, if requested by you, will confirm such advice in writing: (i) of any request by the Commission for amendment of or a supplement to the Registration Statement, any Prepricing Prospectuses or the Prospectuses or for additional information; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction or the initiation of any proceeding for such purpose; and (iii) within the period of time referred to in paragraph (f) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of the happening of any event, including the filing of any information, documents or reports pursuant to the Exchange Act, that makes any statement of a material fact made in the Registration Statement or the Prospectuses (as then amended or supplemented) untrue or which requires the making of any additions to or changes in the Registration Statement or the Prospectuses (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectuses (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(c) The Company will furnish to you, without charge, four signed copies of the Registration Statement as originally filed with the Commission and of each amendment thereto, including financial statements and all exhibits to the Registration Statement and will also furnish to you, without charge, such number of conformed copies of the Registration Statement as originally filed and of each amendment thereto, but without exhibits, as you may reasonably request.

(d) The Company will not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectuses of which you shall not previously have been advised or to which you shall reasonably object in writing after being so advised or (ii) so long as, in the written opinion of counsel for the U.S. Underwriters (a copy of which shall be delivered to the Company), a prospectus is required to be delivered in connection with sales by any U.S. Underwriter or dealer, file any information, documents or reports pursuant to the Exchange Act, without delivering a copy of such information, documents or reports to you, as Representatives of the U.S. Underwriters, prior to or concurrently with such filing.

(e) Prior to the execution and delivery of this Agreement, the Company has delivered or will deliver to you, without charge, in such quantities as you have reasonably requested or may hereafter reasonably request, copies of each form of the U.S. Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several U.S. Underwriters and by dealers, prior to the date of the U.S. Prospectus, of each U.S. Prepricing Prospectus so furnished by the Company.

(f) As soon after the execution and delivery of this Agreement as possible and thereafter from time to time for such period as in the written opinion of counsel for the U.S. Underwriters a U.S. Prospectus is required by the Act to be delivered in connection with sales by any U.S. Underwriter or dealer, the Company will expeditiously deliver to each U.S. Underwriter and each dealer, without charge, as many copies of the U.S. Prospectus (and of any amendment or supplement thereto) as you may reasonably request. The Company consents to the use of the U.S. Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act and with the securities or Blue Sky laws of the jurisdictions in which the Shares are offered by the several U.S. Underwriters and by all dealers to whom Shares may be sold, both in connection with the offering and sale of the Shares and for such period of time thereafter as the U.S. Prospectus is required by the Act to be delivered in connection with sales by any U.S. Underwriter or dealer. If during such period of time any event shall occur that in the judgment of the Company or in the

written opinion of counsel for the U.S. Underwriters is required to be set forth in the U.S. Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the U.S. Prospectus to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of paragraph (d) above, file with the Commission an appropriate supplement or amendment thereto and will expeditiously furnish to the U.S. Underwriters and dealers a reasonable number of copies thereof.

(g) The Company will cooperate with you and with counsel for the U.S. Underwriters in connection with the registration or qualification of the Shares for offering and sale by the several U.S. Underwriters and by dealers under the securities or Blue Sky laws of such jurisdictions as you may reasonably designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Shares, in any jurisdiction where it is not now so subject.

(h) The Company will make generally available to its security holders a consolidated earnings statement, which need not be audited, covering a twelve-month period commencing after the effective date of the Registration Statement and ending not later than 15 months thereafter, as soon as reasonably practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act.

(i) During the period of five years hereafter, the Company will furnish to you (i) as soon as available, a copy of each report of the Company mailed to stockholders or filed with the Commission or NASDAQ, and (ii) from time to time such other information concerning the Company as you may reasonably request.

(j) If this Agreement shall terminate or shall be terminated after execution pursuant to any provisions hereof (otherwise than pursuant to the second paragraph of Section 10 hereof or by notice given by you terminating this Agreement pursuant to Section 10 or Section 11 hereof) or if this Agreement shall be terminated by the U.S. Underwriters because of any failure or refusal on the part of

the Company to comply, in any material respect, with the terms or fulfill, in any material respect, any of the conditions of this Agreement, the Company agrees to reimburse the Representatives for all reasonable out-of-pocket expenses (including reasonable fees and expenses of counsel for the U.S. Underwriters) incurred by you in connection herewith.

(k) The Company will apply the net proceeds from the sale of the Shares to be sold by it hereunder substantially in accordance with the description set forth in the Prospectuses.

(l) If Rule 430A of the Act is employed, the Company will timely file the Prospectuses pursuant to Rule 424(b) under the Act and will advise you of the time and manner of such filing.

(m) For a period of 180 days after the date hereof (the "Lock-up Period"), the Company will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell or otherwise dispose of any Common Stock (or any securities convertible into or exercisable or exchangeable for Common Stock) or grant any options or warrants to purchase Common Stock, except for sales to the U.S. Underwriters pursuant to this Agreement and the Managers pursuant to the International Underwriting Agreement and for options or awards of the Company's Common Stock granted in accordance with the QAD Inc. 1997 Stock Incentive Program.

(n) The Company has furnished or will furnish to you "lock-up" letters, in form and substance satisfactory to you, signed by each of its current executive officers and directors and each of its stockholders previously designated by you.

(o) Except as stated in this Agreement and in the International Underwriting Agreement and in the Prepricing Prospectuses and Prospectuses, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(p) The Company will use its best efforts to have the Common Stock listed, subject to notice of issuance, on the Nasdaq National Market concurrently with the effectiveness of the registration statement.

(q) The Company will use its best efforts to satisfy on or before the Closing Date or any Option Closing Date, as the case may be, all conditions to the U.S. Underwriters' obligations to purchase the Shares.

6. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to each U.S. Underwriter that:

(a) Each U.S. Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or supplement thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the provisions of the Act; except that this representation and warranty does not apply to statements in or omissions from such U.S. Prepricing Prospectus (or any amendment or supplement thereto) made in reliance upon and in conformity with information relating to any U.S. Underwriter or Manager furnished to the Company in writing by a U.S. Underwriter through the Representatives or by a Manager through the Lead Managers expressly for use

therein. The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus.

(b) The Registration Statement in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto shall become effective and the Prospectuses and any supplement or amendment thereto when filed with the Commission under Rule 424(b) under the Act, complied or will comply in all material respects with the provisions of the Act and will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; except that this representation and warranty does not apply to statements in or omissions from the Registration Statement or the Prospectuses made in reliance upon and in conformity with information relating to any U.S. Underwriter or Manager furnished to the Company in writing by a U.S. Underwriter through the Representatives or by a Manager through the Lead Managers expressly for use therein.

(c) All the outstanding shares of Common Stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are free of any preemptive or similar rights; the Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered to the U.S. Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights; and the capital stock of the Company conforms to the description thereof in the Registration Statement and the Prospectuses.

(d) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectuses, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a material adverse effect on the condition (financial or other), business, properties, net worth or results of operations of the Company and its Subsidiaries (as hereinafter defined), taken as a whole (a "Material Adverse Effect").

(e) All the Company's subsidiaries (collectively, the "Subsidiaries") are listed in an exhibit to the Registration Statement. Each

Subsidiary is a corporation duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a Material Adverse Effect; all the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable, and, except for Integral Informationstechnik GmbH, are owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrance.

(f) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any of the Subsidiaries, which are materially adverse to the Company and its Subsidiaries, taken as a whole, or to which the Company or any of the Subsidiaries, or to which any of their respective properties, is subject which are material to the Company and its Subsidiaries, taken as a whole, that are required to be described in the Registration Statement or the Prospectuses but are not described as required, and there are no agreements, contracts, indentures, leases or other instruments relating to the Company that are required to be described in the Registration Statement or the Prospectuses or to be filed as an exhibit to the Registration Statement that are not described or filed as required by the Act or the Exchange Act. The descriptions of the terms of any such contracts or documents contained in the Registration Statement or the Prospectuses are correct in all material respects.

(g) Neither the Company nor any of the Subsidiaries is in (i) violation of its certificate or articles of incorporation or by-laws, or other organizational documents, (ii) in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries (except where any such violation or violations in the aggregate would not have a Material Adverse Effect), or (iii) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, and no condition or state of facts exists, which with the passage of time or the giving of notice or both, would constitute such a default (except where any such default or defaults in the aggregate would not have a Material Adverse Effect).

(h) Neither the issuance and sale of the Shares, the execution, delivery or performance of this Agreement or the International Underwriting Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby and thereby (i) requires any consent, approval, authorization or other order of or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required for the registration of the Shares under the Act and compliance with the securities or Blue Sky laws of various jurisdictions, all of which have been or will be effected in accordance with this Agreement) or conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the certificate or articles of incorporation or bylaws, or other organizational documents, of the Company or any of the Subsidiaries or (ii) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, or violates or will violate any statute, law, regulation or filing or judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties, or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which

any of the property or assets of any of them is subject.

(i) The accountants, KPMG Peat Marwick LLP, who have certified or shall certify the financial statements filed or to be filed as part of the Registration Statement or the Prospectuses (or any amendment or supplement thereto) are independent public accountants as required by the Act.

(j) The financial statements, together with related schedules and notes forming part of the Registration Statement and the Prospectuses (and any amendment or supplement thereto), present fairly the consolidated financial position, results of operations, cash flows and changes in stockholders' equity of the Company and the Subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectuses (and any amendment or supplement thereto) are accurately presented and prepared on a basis consistent with the books and records of the Company and its Subsidiaries.

(k) The execution and delivery of, and the performance by the Company of its obligations under, each of this Agreement and the International Underwriting Agreement have been duly and validly authorized by the Company, and each of this Agreement and the International Underwriting Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except (i) the enforceability hereof or thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, (ii) the remedy of specific performance and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which the proceedings may be brought and (iii) rights to indemnity and contribution hereunder or thereunder may be limited by federal or state securities laws or the public policy underlying such laws.

(l) Except as disclosed in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), neither the Company nor any of the Subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction, not in the ordinary course of business, that is material to the Company and the Subsidiaries taken as a whole, and there has not been any change in the capital stock of the Company, or material increase in the short-term debt or long-term debt, of the Company or any of the Subsidiaries, or any development having or which may reasonably be expected to have, a Material Adverse Effect.

(m) Each of the Company and the Subsidiaries has good and marketable title to all property (real and personal) described in the Prospectuses as being owned by it, free and clear of all liens, claims, security interests or other encumbrances except such as are described in the Registration Statement and the Prospectuses or in a document filed as an exhibit to the Registration Statement and all the property described in the Prospectuses as being held under lease by each of the Company and the Subsidiaries is held by it under valid, subsisting and enforceable leases with only such exceptions as in

the aggregate are not materially burdensome and do not interfere in any material respect with the conduct of the business of the Company and the Subsidiaries, taken as a whole.

(n) The Company has not distributed and, prior to the later to occur of (i) the Closing Date or the Option Closing Date, if any, and (ii) completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prepricing Prospectuses, the Prospectuses or other materials, if

any, permitted by the Act.

(o) The Company and each of the Subsidiaries has such permits, licenses, franchises and authorizations of governmental or regulatory authorities ("Permits") as are necessary to own its respective properties and to conduct its business in the manner described in the Prospectuses, except where the failure to have any such Permit would not have a Material Adverse Effect and subject to such qualifications as may be set forth in the Prospectuses; the Company and each of the Subsidiaries has fulfilled and performed all its material obligations with respect to such Permits and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such Permit, subject in each case to such qualification as may be set forth in the Prospectuses; and, except as described in the Prospectuses, none of such Permits contains any restriction that is materially burdensome to the Company or any of the Subsidiaries.

(p) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(q) To the Company's knowledge, neither the Company nor any of its Subsidiaries nor any employee or agent of the Company or any Subsidiary has made any payment of funds of the Company or any Subsidiary or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectuses.

(r) The Company and each of the Subsidiaries have filed all material tax returns required to be filed, which returns are true and correct in all material respects, and neither the Company nor any Subsidiary is in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto.

(s) Except as described in the Prospectuses, no holder of any security of the Company has any right to require registration of shares of Common Stock or any other security of the Company because of the filing of the registration statement or consummation of the transactions contemplated by this Agreement or the International Underwriting Agreement, or otherwise. No such rights were

exercised nor will be exercised in connection with the sale of the Shares and for a period of 180 days after the date hereof. Except as described in or contemplated by the Prospectuses, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments, plans or arrangements to issue, any shares of Common Stock of the Company or any security convertible into or exchangeable or exercisable for Common Stock of the Company.

(t) The Company and the Subsidiaries own or possess all patents, trademarks, trademark registration, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectuses as being owned by them or any of them or necessary for the conduct of their respective businesses except where the lack of such ownership or possession would not have a Material Adverse Effect, and the Company is not aware of any claim to the contrary or any challenge by any other person to the rights of the Company and the Subsidiaries with respect to the foregoing.

(u) The Company is not and, upon sale of the Shares to be issued and sold in accordance herewith and upon application of the net proceeds to the Company from such sale as described in the Prospectuses under the caption "Use of Proceeds," will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(v) The Company has complied with all provisions of Florida Statutes, Section 517.075, relating to issuers doing business with Cuba.

7. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless you and each other U.S. Underwriter and each person, if any, who controls any U.S. Underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any U.S. Prepricing Prospectus or in the Registration Statement or the U.S. Prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to such U.S. Underwriter furnished in writing to the Company by or on behalf of any U.S. Underwriter through you expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any U.S. Prepricing Prospectus shall not inure to the benefit of any U.S. Underwriter (or to the benefit of any person controlling such U.S. Underwriter) on account of any such loss, claim, damage, liability or expense arising from the sale of the Shares by such U.S. Underwriter to any person if a copy of the U.S. Prospectus shall not have been delivered or sent to such person within the time required by the Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such U.S. Prepricing Prospectus was corrected in the U.S. Prospectus, provided that the Company has delivered the U.S. Prospectus to the several U.S. Underwriters in requisite quantity on a timely basis to permit such delivery or sending.

(b) If any action, suit or proceeding shall be brought against any U.S. Underwriter or any person controlling any U.S. Underwriter in respect of which indemnity may be sought against the Company, such U.S. Underwriter or such controlling person shall promptly notify the parties against whom indemnification is being sought (the "indemnifying parties"), and such indemnifying parties shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such U.S. Underwriter or any such controlling person shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such U.S. Underwriter or such controlling person unless (i) the indemnifying parties have agreed in writing to pay such fees and expenses, (ii) the indemnifying parties have failed to assume the defense and employ counsel, or (iii) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such U.S. Underwriter or such controlling person and the indemnifying parties and such U.S. Underwriter or such controlling person shall have been advised by its counsel in writing that representation of such indemnified party and any indemnifying party by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the indemnifying party shall not have the right to assume the defense of such action, suit or proceeding on behalf of such U.S. Underwriter or such controlling person). It is understood, however, that the indemnifying parties shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such U.S. Underwriters and controlling persons not having actual or potential differing interests with you or among themselves, which firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed as they are incurred. The indemnifying parties shall not be liable for any settlement of any such action, suit or proceeding effected without their written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the indemnifying parties agree to indemnify and hold harmless any U.S. Underwriter, to the extent provided in the preceding paragraph, and any

such controlling person from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each U.S. Underwriter agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each U.S. Underwriter, but only with respect to information relating to such U.S. Underwriter furnished in writing by or on behalf of such U.S. Underwriter through you expressly for use in the Registration Statement, the U.S. Prospectus or any U.S. Prepricing Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the Registration Statement, the U.S. Prospectus or any U.S. Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any U.S. Underwriter pursuant to this paragraph (c), such U.S. Underwriter shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such U.S. Underwriter shall not be required to do so, but may employ

separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such U.S. Underwriter's expense), and the Company, its directors, any such officer, and any such controlling person, shall have the rights and duties given to the U.S. Underwriters by paragraph (b) above.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the U.S. Underwriters on the other hand from the offering of the Shares, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the U.S. Underwriters on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the U.S. Underwriters on the other hand shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the U.S. Underwriters, in each case as set forth in the table on the cover page of the U.S. Prospectus; provided that, in the event that the U.S. Underwriters shall have purchased any Additional Shares hereunder, any determination of the relative benefits received by the Company or the U.S. Underwriters from the offering of the Shares shall include the net proceeds (before deducting expenses) received by the Company, and the underwriting discounts and commissions received by the U.S. Underwriters, from the sale of such Additional Shares, in each case computed on the basis of the respective amounts set forth in the notes to the table on the cover page of the U.S. Prospectus. The relative fault of the Company on the one hand and the U.S. Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the U.S. Underwriters on the other hand and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

(e) The Company and the U.S. Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by a pro rata allocation (even if the U.S. Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (d) above

shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 7, no U.S. Underwriter shall be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed to the public exceeds the amount of any damages which such U.S. Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty

of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The U.S. Underwriters' obligations to contribute pursuant to this Section 7 are several in proportion to the respective numbers of Firm Shares set forth opposite their names in Schedule I hereto (or such numbers of Firm Shares increased as set forth in Section 10 hereof) and not joint.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 7 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 7 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any U.S. Underwriter or any person controlling any U.S. Underwriter, the Company or its directors or officers or any person controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any U.S. Underwriter or any person controlling any U.S. Underwriter, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 7.

8. CONDITIONS OF U.S. UNDERWRITERS' OBLIGATIONS. The several obligations of the U.S. Underwriters to purchase the Firm Shares hereunder are subject to the following conditions:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the Registration Statement or such post-effective amendment shall have become effective not later than 5:30 P.M. New York City time, on the date hereof, or at such later date and time as shall be consented to by you, and all filings, if any, required by Rules 424 and 430A under the Act shall have been timely made; no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or any U.S. Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectuses or otherwise) shall have been complied with to your satisfaction.

(b) Subsequent to the effective date of this Agreement, there shall not have occurred (i) any change, or any development involving a prospective change, that would have a Material Adverse Effect on the Company and the Subsidiaries, taken as a whole, not contemplated by the Prospectuses, which in your opinion, as Representatives of the several U.S. Underwriters, would materially, adversely affect the market for the Shares, or (ii) any event or development relating to or involving the Company or any officer or director of the Company which makes any statement made in the Prospectuses untrue

or which, in the opinion of the Company and its counsel or the U.S. Underwriters and their counsel, requires the making of any addition to or change in the Prospectuses in order to state a material fact required by the Act or any other law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectuses to reflect such event or development would, in your opinion, as Representatives of the several U.S. Underwriters, materially adversely affect the market for the Shares.

(c) You shall have received on the Closing Date an opinion of Millbank, Tweed, Hadley & McCloy, counsel for the Company, dated the Closing Date and addressed to you, as Representatives of the several U.S. Underwriters, in the form set forth on Schedule II hereof.

(d) You shall have received on the Closing Date an opinion of Nida & Maloney, counsel for the Company, dated the Closing Date and addressed to you, as Representatives for the several U.S. Underwriters, in the form set forth on Schedule III hereof.

(e) You shall have received on the Closing Date opinions of foreign counsel, dated the Closing Date, concerning the Company's material foreign Subsidiaries in forms reasonably satisfactory to the Representatives of the several U.S. Underwriters and addressed to you, as Representatives of the several U.S. Underwriters.

(f) You shall have received on the Closing Date an opinion of Wilson Sonsini Goodrich & Rosati, counsel for the U.S. Underwriters, dated the Closing Date, in the form set forth on Schedule IV herefo.

(g) You shall have received letters addressed to you, as Representatives of the several U.S. Underwriters, and dated the date hereof and the Closing Date from KPMG Peat Marwick LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(h) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission at or prior to the Closing Date; (ii) there shall not have been any material change in the capital stock of the Company nor any material increase in the short-term or long-term debt of the Company (other than in the ordinary course of business) from that set forth or contemplated in the Registration Statement or the Prospectuses (or any amendment or supplement thereto); (iii) there shall not have been, since the respective dates as of which information is given in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and Prospectuses (or any amendment or supplement thereto), any material adverse change in the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries taken as a whole; and (iv) all the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by the chief executive officer and the chief financial officer of the Company (or such other officers as are acceptable to you), to the effect set forth in this Section 8(h) and in Section 8(i) hereof.

(i) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(j) The Company shall have furnished or caused to be furnished to you such further certificates and documents as you shall have reasonably requested.

(k) The Common Stock shall have been listed or approved for listing,

subject to notice of issuance, on the Nasdaq National Market.

(l) The closing under the International Underwriting Agreement shall have occurred on the Closing Date concurrently with the closing hereunder.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to you and your counsel.

Any certificate or document signed by any executive officer of the Company and delivered to you, as Representatives of the U.S. Underwriters, or to counsel for the U.S. Underwriters, shall be deemed a representation and warranty by the Company to each U.S. Underwriter as to the statements made therein.

The several obligations of the U.S. Underwriters to purchase Additional Shares hereunder are subject to the satisfaction on and as of any Option Closing Date of the conditions set forth in this Section 8, except that, if any Option Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in this Section 8 shall be dated the Option Closing Date in question and the opinions or letters called for by paragraphs (c), (d), (e), (f) and (g) shall be revised to reflect the sale of Additional Shares.

9. EXPENSES. The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by the Company of its obligations hereunder: (i) the preparation, printing or reproduction, and filing with the Commission of the registration statement (including financial statements and exhibits thereto), each Prepricing Prospectus, the Prospectus, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the registration statement, each Prepricing Prospectus, the Prospectus, and all amendments or supplements to any of them as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the original issuance and sale of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement, the International Underwriting Agreement, the Master Agreement Among Underwriters, the Supplemental Agreement Among U.S. Underwriters, the Agreement Among Managers, the Agreement Between U.S. Underwriters and Managers, the International Selling Agreement, the Managers' Questionnaire, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed and delivered in connection with the offering of the Underwritten Shares; (v) the registration of the Common Stock under the Exchange Act and the listing of the Shares on the Nasdaq National Market; (vi) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of the several states as provided in Section 5(g) hereof (including the reasonable fees, expenses and disbursements of counsel for the U.S. Underwriters relating thereto

in an amount not to exceed $5,000 in the aggregate); (vii) the filing fees in connection with any filings required to be made with the National Association of Securities Dealers, Inc.; (viii) the transportation and other expenses incurred by or on behalf of representatives of the Company in connection with presentations to prospective purchasers of the Shares; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) the performance by the Company of its other obligations under the U.S. Underwriting Agreement and the International Underwriting Agreement.

10. EFFECTIVE DATE OF AGREEMENT. This Agreement shall become effective: (i) upon the execution and delivery hereof by the parties hereto; or (ii) if, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, when notification of the effectiveness of the registration statement or such post-effective amendment has been released by the Commission. Until such time as this Agreement shall have become effective, it may be terminated by the Company, by notifying you, or by you, as Representatives of the several U.S. Underwriters, by notifying the Company.

If any one or more of the U.S. Underwriters shall fail or refuse to purchase Shares which it or they are obligated to purchase hereunder on the Closing Date, and the aggregate number of Shares which such defaulting U.S. Underwriter or Underwriters are obligated but fail or refuse to purchase is not more than one-tenth of the aggregate number of Shares which the U.S. Underwriters are obligated to purchase on the Closing Date, each non-defaulting U.S. Underwriter shall be obligated, severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I hereto bears to the aggregate number of Firm Shares set forth opposite the names of all non-defaulting U.S. Underwriters or in such other proportion as you may specify in accordance with Section 20 of the Master Agreement Among Underwriters of Smith Barney Inc., to purchase the Shares which such defaulting U.S. Underwriter or Underwriters are obligated, but fail or refuse, to purchase. If any one or more of the U.S. Underwriters shall fail or refuse to purchase Shares which it or they are obligated to purchase on the Closing Date and the aggregate number of Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Shares which the U.S. Underwriters are obligated to purchase on the Closing Date and arrangements satisfactory to you and the Company for the purchase of such Shares by one or more non-defaulting U.S. Underwriters or other party or parties approved by you and the Company are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting U.S. Underwriter or the Company. In any such case which does not result in termination of this Agreement, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting U.S. Underwriter from liability in respect of any such default of any such Underwriter under this Agreement. The term "U.S. Underwriter" as used in this Agreement includes, for all purposes of this Agreement, any party not listed in Schedule I hereto who, with your approval and the approval of the Company, purchases Shares which a defaulting U.S. Underwriter is obligated, but fails or refuses, to purchase.

Any notice under this Section 10 may be given by telegram, telecopy or telephone but shall be subsequently confirmed by letter.

11. TERMINATION OF AGREEMENT. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of any U.S. Underwriter to the Company, by notice to the Company, if prior to the Closing Date or any Option Closing Date (if different from the Closing Date and then only as to the Additional Shares), as the case may be, (i) trading in securities generally on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market shall have been suspended or materially limited, (ii) a general moratorium on commercial banking activities in New York shall have been declared by either federal or state authorities, or (iii) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions, the effect of which on the financial markets of the United States is such as to make it, in your judgment, impracticable or inadvisable to commence or continue the offering of the Shares at the offering price to the public set forth on the cover page of the U.S. Prospectus or to enforce contracts for the resale of the Shares by the U.S. Underwriters.

Notice of such termination may be given by telegram, telecopy or telephone and shall be subsequently confirmed by letter.

12. INFORMATION FURNISHED BY THE U.S. UNDERWRITERS. The statements set forth in the last paragraph on the cover page, the stabilization legend on the inside front cover page, and the statements in the first through thirteen paragraphs under the caption "Underwriting" in any U.S. Prepricing Prospectus and in the U.S. Prospectus constitute the only information furnished by or on behalf of the U.S. Underwriters through you as such information is referred to in Sections 6(b) and 7 hereof.

13. MISCELLANEOUS. Except as otherwise provided in Sections 5, 10 and 11 hereof, notice given pursuant to any provision of this Agreement shall be in writing and shall be delivered (i) if to the Company at the office of the Company at, 6450 Via Real, Carpinteria, California, 93013, Attention: Karl F.

Lopker, Chief Executive Officer (with copies to Eric H. Schunk, Esq., Milbank, Tweed, Hadley & McCloy, 601 S. Figueroa St., 30th Floor, Los Angeles, CA 90017, and Joseph E. Nida, Esq., Nida & Maloney Professional Corporation, 801 Garden St., Suite 201, Santa Barbara, CA 93101); or (ii) if to you, as Representatives of the several U.S. Underwriters, care of Smith Barney Inc., 388 Greenwich Street, New York, NY 10013, Attention: Manager, Investment Banking Division (with a copy to Wilson Sonsini Goodrich & Rosati, 650 Page Mill Rd., Palo Alto, CA 9430-1050, Attention: John T. Sheridan, Esq.).

This Agreement has been and is made solely for the benefit of the several U.S. Underwriters, the Company, its directors and officers, the other controlling persons referred to in Section 7 hereof and their respective successors and assigns, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement or her shall include a purchaser from any U.S. Underwriter of any of the Shares in his or her status as such purchaser.

14. APPLICABLE LAW; COUNTERPARTS. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

Please confirm that the foregoing correctly sets forth the agreement among the Company and the several U.S. Underwriters.

Very truly yours,

QAD INC.

By

Chief Executive Officer

Confirmed as of the date first above mentioned
on behalf of themselves and the other several
U.S. Underwriters named in Schedule I hereto.

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

As Representatives of the Several U.S. Underwriters

By SMITH BARNEY INC.

By

Managing Director

SCHEDULE I

QAD INC.

Underwriter	Number of Firm Shares	Underwriter	Number of Firm Shares
Smith Barney Inc.			
Cowen & Company			
Robertson, Stephens & Company LLC			

Total

SCHEDULE II

QAD INC.

FORM OF MILBANK, TWEED, HADLEY & MCCLOY OPINION

[TO COME]

SCHEDULE III

QAD INC.

FORM OF NIDA & MALONEY OPINION

[TO COME]

SCHEDULE IV

QAD INC.

FORM OF WILSON SONSINI GOODRICH & ROSATI OPINION

[TO COME]

EXHIBIT 1.2

5,750,000 Shares

QAD Inc.

Common Stock

INTERNATIONAL UNDERWRITING AGREEMENT

June ___, 1997

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

As Lead Managers for the Several Managers

c/o SMITH BARNEY INC.
333 West 34th Street
New York, New York 10001

Dear Sirs:

QAD Inc., a Delaware corporation (the "Company"), proposes to issue and sell an aggregate 1,150,000 shares of its common stock, par value $0.001 per share (the "Firm Shares") to the several Underwriters named in Schedule I hereto (the "Managers") for whom Smith Barney Inc., Cowen & Company and Robertson, Stephens & Company LLC are acting as representatives (the "Lead Managers"). In addition, solely for the purpose of covering over-allotments, the Company proposes to sell to the Managers, upon the terms and conditions set forth in Section 2 hereof, up to an additional 172,500 shares (the "Additional Shares") of the Company's common stock. The Firm Shares and the Additional Shares are hereinafter collectively referred to as the "Shares." The Company's common stock, par value $0.001 per share, including the Shares and the U.S. Shares (as defined herein), is hereinafter referred to as the "Common Stock."

It is understood that the Company is concurrently entering into a U.S. Underwriting Agreement, dated the date hereof (the "U.S. Underwriting Agreement"), providing for the sale by the Company of 4,600,000 shares of the Common Stock (the "Firm U.S. Shares") (plus an option granted by the Company to purchase up to an additional 690,000 shares of Common Stock (the "Additional U.S.

Shares") solely for the purpose of covering over-allotments) through arrangements with certain underwriters in the United States and Canada (the "U.S. Underwriters"), for whom Smith Barney Inc., Cowen & Company and Robertson Stephens & Company LLC are acting as representatives (the "Representatives"). All shares of Common Stock proposed to be offered to U.S. Underwriters pursuant to the U.S. Underwriting Agreement, including the Firm U.S. Shares and the Additional U.S. Shares, are herein called the "U.S. Shares"; the U.S. Shares and the Shares, collectively, are herein called the "Underwritten Shares."

The Company also understands that the Lead Managers and the Representatives have entered into an agreement (the "Agreement Between U.S. Underwriters and Managers") contemplating the coordination of certain transactions between the Managers and the U.S. Underwriters and that, pursuant thereto and subject to the conditions set forth therein, the Managers may purchase from U.S. Underwriters a portion of the U.S. Shares or sell to the Managers a portion of the Shares. The Company understands that any such purchases and sales between the Managers and the U.S. Underwriters shall be governed by the Agreement Between U.S. Underwriters and Managers and shall not be governed by the terms of this Agreement or the U.S. Underwriting Agreement.

The Company wishes to confirm as follows its agreement with you and the other several Managers on whose behalf you are acting, in connection with the several purchases of the Shares by the Underwriters.

1. REGISTRATION STATEMENT AND PROSPECTUS. The Company has prepared and filed with the Securities and Exchange Commission (the "Commission") in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder (collectively, the "Act"), a registration statement on Form S-1, including prospectuses subject to completion, relating to the Underwritten Shares. The term "Registration Statement" as used in this Agreement means the registration statement (including all financial schedules and exhibits), as amended at the time it becomes effective, and as thereafter amended by post-effective amendment. The term "Prospectuses" as used in this Agreement means the prospectuses in the forms included in the Registration Statement, or, if the prospectuses included in the Registration Statement omit information in reliance on Rule 430A under the Act and such information is included in prospectuses filed with the Commission pursuant to Rule 424(b) under the Act, the term "Prospectuses" as used in this Agreement means the prospectuses in the forms included in the Registration Statement as supplemented by the addition of the Rule 430A information contained in the prospectuses filed with the Commission pursuant to Rule 424(b). The term "Prepricing Prospectuses" as used in this Agreement means the prospectuses subject to completion in the forms included in the Registration Statement at the time of the initial filing of the Registration Statement with the Commission, and as such prospectuses shall have been amended from time to time prior to the date of the Prospectuses.

It is understood that two forms of Prepricing Prospectus and two forms of Prospectus are to be used in connection with the offering and sale of the Underwritten Shares: a Prepricing Prospectus and a Prospectus relating to the U.S. Shares that are to be offered and sold in the United States (as defined herein) or Canada (as defined herein) or to U.S. or Canadian Persons (the "U.S. Prepricing Prospectus" and the "U.S. Prospectus," respectively), and a Prepricing Prospectus and a Prospectus relating to the Shares which are to be offered and sold outside the United States or Canada to persons other than U.S. or Canadian

Persons (the "International Prepricing Prospectus" and the "International Prospectus," respectively). The U.S. Prospectus and the International Prospectus are herein collectively called the "Prospectuses," and the U.S. Prepricing Prospectus and the International Prepricing Prospectus are herein called the "Prepricing Prospectuses." For purposes of this Agreement: "Rules and Regulations" means the rules and regulations adopted by the Commission under either the Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act") as applicable; "U.S. or Canadian Person" means any resident or national of the United States or Canada, any corporation, partnership or other entity created or organized in or under the laws of the United States or Canada or any estate or trust the income of which is subject to United States or Canadian income taxation regardless of the source of its income (other than the foreign branch of any U.S. or Canadian Person), and includes any United States or Canadian branch of a person other than a U.S. or Canadian Person; "United States" means the United States of America (including the states thereof and the District of Columbia) and its territories, its possessions and other areas subject to its jurisdiction; and "Canada" means Canada and its territories, its possessions and other areas subject to its jurisdiction.

2. AGREEMENTS TO SELL AND PURCHASE. Upon the basis of the representations, warranties and agreements of the Company contained herein, and to such adjustments as you may determine to avoid fractional shares, the Company hereby agrees to issue and sell to each Manager and, each Manager agrees, severally and not jointly, to purchase from the Company, at a purchase price of $_____ per share (the "purchase price per share"), the number of Firm Shares that bears the same proportion to the aggregate number of Firm Shares to be issued and sold by the Company as the number of Firm Shares set forth opposite the name of such Manager in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 10 hereof) bears to the aggregate number of Firm Shares to be sold by the Company.

The Company also agrees, subject to all the terms and conditions set forth herein, to sell to the Managers, and, upon the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions set forth herein, the Managers shall have the right to purchase from the Company at the purchase price per share, pursuant to an option (the "over-allotment option") which may be exercised at any time and from time to time prior to 5:00 p.m., New York City time, on the 30th day after the date of the International Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the New York Stock Exchange is open for trading), up to an aggregate of 172,500 Additional Shares from the Company. Additional shares may be purchased only for the purpose of covering over-allotments made in connection with the offering of the Firm Shares. Upon any exercise of the over-allotment option, each Manager, severally and not jointly, agrees to purchase from the Company the number of Additional Shares (subject to such adjustments as you may determine in order to avoid fractional shares) that bears the same proportion to the number of Additional Shares to be sold by the Company set forth opposite the name of such Manager in Schedule I hereto (or such number of Firm Shares increased as set forth in Section 10 hereof) bears to the aggregate number of Firm Shares to be sold by the Company.

3. TERMS OF PUBLIC OFFERING. The Company has been advised by you that the Managers propose to make a public offering of their respective portions of the Shares as soon after the Registration Statement and this Agreement have become effective as in your judgment is advisable and initially to offer the Shares upon the terms set forth in the International Prospectus.

4. DELIVERY OF THE SHARES AND PAYMENT THEREFOR. Delivery to the Managers of and payment for the Firm Shares shall be made at the office of Smith Barney Inc., 333 West 34th Street, New York, N.Y. 10001, at 10:00 A.M., New York City time, on _____, 1997 (the "Closing Date"). The place of closing for the Firm Shares and the Closing Date may be varied by agreement among you and the Company.

Delivery to the Managers of and payment for any Additional Shares to be purchased by the Managers shall be made at the aforementioned office of Smith Barney Inc. at such time on such date (the "Option Closing Date"), which may be the same as the Closing Date but shall in no event be earlier than the Closing Date nor earlier than two nor later than ten business days after the giving of the notice hereinafter referred to, as shall be specified in a written notice from you on behalf of the Managers to the Company of the Managers' determination to purchase a number, specified in such notice, of Additional Shares. The place of closing for any Additional Shares and the Option Closing Date for such Shares may be varied by agreement among you and the Company.

Certificates for the Firm Shares and for any Additional Shares to be purchased hereunder shall be registered in such names and in such denominations as you shall request by written notice, it being understood that a facsimile transmission shall be deemed written notice, prior to 9:30 A.M., New York City time, on the second business day preceding the Closing Date or any Option Closing Date, as the case may be. Such certificates shall be made available to you in New York City for inspection and packaging not later than 9:30 A.M., New York City time, on the business day next preceding the Closing Date or the Option Closing Date, as the case may be. The certificates evidencing the Firm Shares and any Additional Shares to be purchased hereunder shall be delivered to you on the Closing Date or the Option Closing Date, as the case may be, against payment of the purchase price therefor by certified or official bank check or checks payable in New York Clearing House (next day) funds to the order of the Company.

5. AGREEMENTS OF THE COMPANY. The Company agrees with the several Managers as follows:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the Company will endeavor to cause the Registration Statement or such post-effective

amendment to become effective as soon as possible and will advise you promptly and, if requested by you, will confirm such advice in writing, when the Registration Statement or such post-effective amendment has become effective.

(b) The Company will advise you promptly and, if requested by you, will confirm such advice in writing: (i) of any request by the Commission for amendment of or a supplement to the Registration Statement, any Prepricing Prospectuses or the Prospectuses or for additional information; (ii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the suspension of qualification of the Shares for offering or sale in any jurisdiction or the initiation of any proceeding for such purpose; and (iii) within the period of time referred to in paragraph (f) below, of any change in the Company's condition (financial or other), business, prospects, properties, net worth or results of operations, or of the happening of any event, including the filing of any information, documents or reports pursuant to the Exchange Act, that makes any statement of a material fact made in the Registration Statement or the Prospectuses (as then amended or supplemented) untrue or which requires the making of any additions to or changes in the Registration Statement or the Prospectuses (as then amended or supplemented) in order to state a material fact required by the Act or the regulations thereunder

to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the Prospectuses (as then amended or supplemented) to comply with the Act or any other law. If at any time the Commission shall issue any stop order suspending the effectiveness of the Registration Statement, the Company will make every reasonable effort to obtain the withdrawal of such order at the earliest possible time.

(c) The Company will furnish to you, without charge four signed copies of the Registration Statement as originally filed with the Commission and of each amendment thereto, including financial statements and all exhibits to the Registration Statement and will also furnish to you, without charge, such number of conformed copies of the Registration Statement as originally filed and of each amendment thereto, but without exhibits, as you may reasonably request.

(d) The Company will not (i) file any amendment to the Registration Statement or make any amendment or supplement to the Prospectuses of which you shall not previously have been advised or to which you shall reasonably object in writing after being so advised or (ii) so long as, in the written opinion of counsel for the Managers (a copy of which shall be delivered to the Company) a prospectus is required to be delivered in connection with sales by any Manager or dealer, file any information, documents or reports pursuant to the Exchange Act, without delivering a copy of such information, documents or reports to you, as Lead Managers for the Managers, prior to or concurrently with such filing.

(e) Prior to the execution and delivery of this Agreement, the Company has delivered or will deliver to you, without charge, in such quantities as you have reasonably requested or may hereafter reasonably request, copies of each form of the International Prepricing Prospectus. The Company consents to the use, in accordance with the provisions of the Act and with the securities laws of the jurisdictions in which the Shares are offered by the several Managers and by dealers, prior to the date of the International Prospectus, of each International Prepricing Prospectus so furnished by the Company.

(f) As soon after the execution and delivery of this Agreement possible and thereafter from time to time for such period as in the written opinion of counsel for the Managers an International Prospectus is required by the Act to be delivered in connection with sales by any Manager or dealer, the Company will expeditiously deliver to each Manager and each dealer, without charge, as many copies of the International Prospectus (and of any amendment or supplement thereto) as you may reasonably request. The Company consents to the use of the International Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act and with the securities laws of the jurisdictions in which the Shares are offered by the several Managers and by all dealers to whom Shares may be sold, both in connection with the offering and sale of the Shares and for such period of time thereafter as the International Prospectus is required by the Act to be

delivered in connection with sales by any Manager or dealer. If during such period of time any event shall occur that in the judgment of the Company or in the written opinion of counsel for the Managers is required to be set forth in the International Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the International Prospectus in order to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of paragraph (d) above, file with the Commission an appropriate supplement or amendment thereto, and will expeditiously furnish to the Managers and dealers a reasonable number of copies thereof.

(g) The Company will cooperate with you and with counsel for the Managers in connection with the registration or qualification of the Shares for offering and sale by the several Managers and by dealers under the securities laws of such jurisdictions as you may reasonably designate and will file such consents to service of process or other documents necessary or appropriate in order to effect such registration or qualification; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Shares, in any jurisdiction where it is not now so subject.

(h) The Company will make generally available to its security holders a consolidated earnings statement, which need not be audited, covering a twelve-month period commencing after the effective date of the Registration Statement and ending not later than 15 months thereafter, as soon as reasonably practicable after the end of such period, which consolidated earnings statement shall satisfy the provisions of Section 11(a) of the Act.

(i) During the period of five years hereafter, the Company will furnish to you (i) as soon as available, a copy of each report of the Company mailed to stockholders or filed with the Commission or NASDAQ, and (ii) from time to time such other information concerning the Company as you may reasonably request.

(j) If this Agreement shall terminate or shall be terminated after execution pursuant to any provisions hereof (otherwise than pursuant to the second paragraph of Section 10 hereof or by notice given by you terminating this Agreement pursuant to Section 10 or Section 11 hereof) or if this Agreement shall be terminated by the Managers because of any failure or refusal on the part of the Company to comply, in any material respect, with the terms or fulfill, in any material respect, any of the conditions of this Agreement, the Company agrees to reimburse the Lead Managers for all reasonable out-of-pocket expenses (including reasonable fees and expenses of counsel for the Managers) incurred by you in connection herewith.

(k) The Company will apply the net proceeds from the sale of the Shares to be sold by it hereunder substantially in accordance with the description set forth in the Prospectuses.

(l) If Rule 430A of the Act is employed, the Company will timely file the Prospectuses pursuant to Rule 424(b) under the Act and will advise you of the time and manner of such filing.

(m) For a period of 180 days after the date hereof (the "Lock-up Period"), the Company will not, without the prior written consent of Smith Barney Inc., offer, sell, contract to sell or otherwise dispose of any Common Stock (or any securities convertible into or exercisable or exchangeable for Common Stock) or grant any options or warrants to purchase Common Stock, except for sales to the Managers pursuant to this Agreement and the U.S. Underwriters pursuant to the U.S. Underwriting Agreement, and for options or awards of the Company's Common Stock granted in accordance with the

QAD Inc. 1997 Stock Incentive Program.

(n) The Company has furnished or will furnish to you "lock-up" letters, in the form and substance satisfactory to you, signed by caused each of its current executive officers and directors and each of its stockholders previously designated by you.

(o) Except as stated in this Agreement and in the U.S. Underwriting Agreement and in the Prepricing Prospectuses and Prospectuses, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(p) The Company will use its best efforts to have the Common Stock listed, subject to notice of issuance, on the Nasdaq National Market concurrently with the effectiveness of the registration statement.

(q) The Company will use its best efforts to satisfy on or before the Closing Date or any Option Closing Date, as the case may be, all conditions to the Managers' obligations to purchase the Shares.

6. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to each Manager that:

(a) Each International Prepricing Prospectus included as part of the registration statement as originally filed or as part of any amendment or supplement thereto, or filed pursuant to Rule 424 under the Act, complied when so filed in all material respects with the provisions of the Act; except that this representation and warranty does not apply to statements in or omissions from such International Prepricing Prospectus (or any amendment or supplement thereto) made in reliance upon and in conformity with information relating to any Manager or U.S. Underwriter furnished to the Company in writing by a Manager through the Lead Managers or by a Manager through the Lead Managers expressly for use therein. The Commission has not issued any order preventing or suspending the use of any Prepricing Prospectus.

(b) The Registration Statement in the form in which it became or becomes effective and also in such form as it may be when any post-effective amendment thereto shall become effective and the Prospectuses and any supplement or amendment thereto when filed with the Commission under Rule 424(b) under the Act, complied or will comply in all material respects with the provisions of the Act and will not at any such times contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; except that this representation and warranty does not apply to statements in or omissions from the Registration Statement or the Prospectuses made in reliance upon and in conformity with information relating to any Manager or U.S. Underwriter furnished to the Company in writing by or on behalf of a Manager through the Lead Managers or by a U.S. Underwriter through the Representatives expressly for use therein.

(c) All the outstanding shares of Common Stock of the Company have been duly authorized and validly issued, are fully paid and nonassessable and are free of any preemptive or similar rights; the Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered to the Managers against payment therefor in accordance with the terms hereof, will be validly

issued, fully paid and nonassessable and free of any preemptive or similar rights; and the capital stock of the Company conforms to the description thereof in the Registration Statement and the Prospectuses.

(d) The Company is a corporation duly organized and validly existing in good standing under the laws of the State of Delaware with full corporate power and authority to own, lease and operate its properties and to conduct its

business as described in the Registration Statement and the Prospectuses, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a material adverse effect on the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries (as hereinafter defined) taken as a whole (a "Material Adverse Effect").

(e) All the Company's subsidiaries (collectively, the "Subsidiaries") are listed in an exhibit to the Registration Statement. Each Subsidiary is a corporation duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectuses, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify does not have a Material Adverse Effect; all the outstanding shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable, and, except as otherwise disclosed in the Prospectuses, are, except for Integral Informationstechnik GmbH owned by the Company directly, or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrance.

(f) There are no legal or governmental proceedings pending or, to the knowledge of the Company, threatened, against the Company or any of the Subsidiaries which are materially adverse to the Company and its Subsidiaries, taken as a whole, or to which the Company or any of the Subsidiaries, or to which any of their respective properties is subject which are material to the Company and its Subsidiaries, taken as a whole, that are required to be described in the Registration Statement or the Prospectuses but are not described as required, and there are no agreements, contracts, indentures, leases or other instruments relating to the Company that are required to be described in the Registration Statement or the Prospectuses or to be filed as an exhibit to the Registration Statement that are not described or filed as required by the Act or the Exchange Act. The descriptions of the terms of any such contracts or documents contained in the Registration Statement or the Prospectuses are correct in all material respects.

(g) Neither the Company nor any of the Subsidiaries is in (i) violation of its certificate or articles of incorporation or by-laws, or other organizational documents, (ii) in violation of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any decree of any court or governmental agency or body having jurisdiction over the Company or any of the Subsidiaries (except where any such violation or violations in the aggregate would not have a Material Adverse Effect), or (iii) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, and no condition or state of facts exists, which with the passage of time or the giving of notice or both, would constitute such a default (except where any such violation or violations in the aggregate would not have a Material Adverse Effect).

(h) Neither the issuance and sale of the Shares, the execution, delivery or performance of this Agreement or the U.S. Underwriting Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby and thereby (i) requires any consent, approval, authorization or other order of or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required for the registration of the Shares under the Act and compliance with the securities laws of various jurisdictions, all of which have been or will be effected in accordance with this Agreement) or conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the certificate or articles of

incorporation or bylaws, or other organizational documents, of the Company or any of the Subsidiaries or (ii) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, or violates or will violate any statute, law, regulation or filing or judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties, or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which any of the property or assets of any of them is subject.

(i) The accountants, KPMG Peat Marwick LLP, who have certified or shall certify the financial statements filed or to be filed as part of the Registration Statement or the Prospectuses (or any amendment or supplement thereto) are independent public accountants as required by the Act.

(j) The financial statements, together with related schedules and notes forming part of the Registration Statement and the Prospectuses (and any amendment or supplement thereto), present fairly the consolidated financial position, results of operations, cash flows and changes in stockholders' equity of the Company and the Subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related schedules and notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectuses (and any amendment or supplement thereto) are accurately presented and prepared on a basis consistent with such financial statements and the books and records of the Company and its Subsidiaries.

(k) The execution and delivery of, and the performance by the Company of its obligations under, each of this Agreement and the U.S. Underwriting Agreement have been duly and validly authorized by the Company, and each of this Agreement and the U.S. Underwriting Agreement has been duly executed and delivered by the Company and constitutes the valid and legally binding agreement of the Company, enforceable against the Company in accordance with its terms, except (i) the enforceability hereof or thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, (ii) the remedy of specific performance and other forms of equitable relief may be subject to certain equitable defenses and to the discretion of the court before which the proceedings may be brought and (iii) rights to indemnity and contribution hereunder or thereunder may be limited by federal or state securities laws or the public policy underlying such laws.

(l) Except as disclosed in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), neither the

Company nor any of the Subsidiaries has incurred any liability or obligation, direct or contingent, or entered into any transaction, not in the ordinary course of business, that is material to the Company and the Subsidiaries, taken as a whole, and there has not been any change in the capital stock of the Company, or material increase in the short-term debt or long-term debt, of the Company or any of the Subsidiaries, or any development having or which may reasonably be expected to have, a Material Adverse Effect.

(m) Each of the Company and the Subsidiaries has good and marketable title to all property (real and personal) described in the Prospectuses as being owned by it, free and clear of all liens, claims, security interests or other encumbrances except such as are described in the Registration Statement and the Prospectuses or in a document filed as an exhibit to the Registration Statement and all the property described in the Prospectuses as being held under lease by each of the Company and the Subsidiaries is held by it under valid, subsisting

and enforceable leases with only such exceptions as in the aggregate are not materially burdensome and do not interfere in any material respect with the conduct of the business of the Company and the Subsidiaries, taken as a whole.

(n) The Company has not distributed and, prior to the later to occur of (i) the Closing Date or the Option Closing Date, if any, and (ii) completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prepricing Prospectuses, the Prospectuses or other materials, if any, permitted by the Act.

(o) The Company and each of the Subsidiaries has such permits, licenses, franchises and authorizations of governmental or regulatory authorities ("Permits") as are necessary to own its respective properties and to conduct its business in the manner described in the Prospectuses, except where the failure to have any such Permit would not have a Material Adverse Effect and subject to such qualifications as may be set forth in the Prospectuses; the Company and each of the Subsidiaries has fulfilled and performed all its material obligations with respect to such Permits and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such Permit, subject in each case to such qualification as may be set forth in the Prospectuses; and, except as described in the Prospectuses, none of such permits contains any restriction that is materially burdensome to the Company or any of the Subsidiaries.

(p) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(q) To the Company's knowledge, neither the Company nor any of its Subsidiaries nor any employee or agent of the Company or any Subsidiary has made any payment of funds of the Company or any Subsidiary or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectuses.

(r) The Company and each of the Subsidiaries have filed all material tax returns required to be filed, which returns are true and correct in all material respects, and neither the Company nor any Subsidiary is in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto.

(s) Except as described in the Prospectuses, no holder of any security of the Company has any right to require registration of shares of Common Stock or any other security of the Company because of the filing of the registration statement or consummation of the transactions contemplated by this Agreement or the U.S. Underwriting Agreement, or otherwise. No such rights were exercised nor will be exercised in connection with the sale of the Shares and for a period of 180 days after the date hereof. Except as described in or contemplated by the Prospectuses, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments, plans or arrangements to issue, any shares of Common Stock of the Company or any security convertible into or exchangeable or exercisable for Common Stock of the Company.

(t) The Company and the Subsidiaries own or possess all patents, trademarks, trademark registration, service marks, service mark registrations, trade names, copyrights, licenses, inventions, trade secrets and rights described in the Prospectuses as being owned by them or any of them or necessary for the conduct of their respective businesses except where the lack of such ownership or possession would not have a Material Adverse Effect, and the Company is not aware of any claim to the contrary or any

challenge by any other person to the rights of the Company and the Subsidiaries with respect to the foregoing.

(u) The Company is not and, upon sale of the Shares to be issued and sold in accordance herewith and upon application of the net proceeds to the Company from such sale as described in the Prospectuses under the caption "Use of Proceeds," will not be an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(v) The Company has complied with all provisions of Florida Statutes, Section 517.075, relating to issuers doing business with Cuba.

7. INDEMNIFICATION AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless you and each other Manager and each person, if any, who controls any Manager within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act from and against any and all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any International Prepricing Prospectus or in the Registration Statement or the International Prospectus or in any amendment or supplement thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses arise out of or are based upon any untrue statement or omission or alleged untrue statement or omission which has been made therein or omitted therefrom in reliance upon and in conformity with the information relating to such Manager furnished in writing to the Company by or on behalf of any Manager through you expressly for use in connection therewith; provided, however, that the indemnification contained in this paragraph (a) with respect to any International Prepricing Prospectus shall not inure to the benefit of any Manager (or to the benefit of any person controlling such Manager) on account of any such loss, claim, damage, liability or expense arising

from the sale of the Shares by such Manager to any person if a copy of the International Prospectus shall not have been delivered or sent to such person within the time required by the Act and the regulations thereunder, and the untrue statement or alleged untrue statement or omission or alleged omission of a material fact contained in such International Prepricing Prospectus was corrected in the International Prospectus, provided that the Company has delivered the International Prospectus to the several Managers in requisite quantity on a timely basis to permit such delivery or sending.

(b) If any action, suit or proceeding shall be brought against any Manager or any person controlling any Manager in respect of which indemnity may be sought against the Company, such Manager or such controlling person shall promptly notify the parties against whom indemnification is being sought (the "indemnifying parties"), and such indemnifying parties shall assume the defense thereof, including the employment of counsel and payment of all fees and expenses. Such Manager or any such controlling person shall have the right to employ separate counsel in any such action, suit or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Manager or such controlling person unless (i) the indemnifying parties have agreed in writing to pay such fees and expenses, (ii) the indemnifying parties have failed to assume the defense and employ counsel, or (iii) the named parties to any such action, suit or proceeding (including any impleaded parties) include both such Manager or such controlling person and the indemnifying parties and such Manager or such controlling person shall have been advised by its counsel that representation of such indemnified party and any indemnifying party by the same counsel would be inappropriate under applicable standards of professional conduct (whether or not such representation by the same counsel has been proposed) due to actual or potential differing interests between them (in which case the indemnifying party shall not have the right to assume the defense of such action, suit or proceeding on behalf of such Manager or such controlling person). It is understood, however, that the indemnifying parties shall, in connection with any one such action, suit or proceeding or separate but substantially similar or related actions, suits or proceedings in the same jurisdiction arising out of the same general allegations or

circumstances, be liable for the reasonable fees and expenses of only one separate firm of attorneys (in addition to any local counsel) at any time for all such Managers and controlling persons not having actual or potential differing interests with you or among themselves, which firm shall be designated in writing by Smith Barney Inc., and that all such fees and expenses shall be reimbursed as they are incurred. The indemnifying parties shall not be liable for any settlement of any such action, suit or proceeding effected without their written consent, but if settled with such written consent, or if there be a final judgment for the plaintiff in any such action, suit or proceeding, the indemnifying parties agree to indemnify and hold harmless any Manager, to the extent provided in the preceding paragraph, and any such controlling person from and against any loss, claim, damage, liability or expense by reason of such settlement or judgment.

(c) Each Manager agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement, and any person who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, to the same extent as the foregoing indemnity from the Company to each Manager, but only with respect to information relating to such Manager furnished in writing by or on behalf of such Manager through you expressly for use in the Registration Statement, the International Prospectus or any International Prepricing Prospectus, or any amendment or supplement thereto. If any action, suit or proceeding shall be brought against the Company, any of its directors, any such officer, or any such controlling person based on the Registration

Statement, the International Prospectus or any International Prepricing Prospectus, or any amendment or supplement thereto, and in respect of which indemnity may be sought against any Manager pursuant to this paragraph (c), such Manager shall have the rights and duties given to the Company by paragraph (b) above (except that if the Company shall have assumed the defense thereof such Manager shall not be required to do so, but may employ separate counsel therein and participate in the defense thereof, but the fees and expenses of such counsel shall be at such Manager's expense), and the Company, its directors, any such officer, and any such controlling person shall have the rights and duties given to the Managers by paragraph (b) above.

(d) If the indemnification provided for in this Section 7 is unavailable to an indemnified party under paragraphs (a) or (c) hereof in respect of any losses, claims, damages, liabilities or expenses referred to therein, then an indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Managers on the other hand from the offering of the Shares, or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Managers on the other in connection with the statements or omissions that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Managers on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Managers, in each case as set forth in the table on the cover page of the International Prospectus; provided that, in the event that the Managers shall have purchased any Additional Shares hereunder, any determination of the relative benefits received by the Company or the Managers from the offering of the Shares shall include the net proceeds (before deducting expenses) received by the Company, and the underwriting discounts and commissions received by the Managers, from the sale of such Additional Shares, in each case computed on the basis of the respective amounts set forth in the notes to the table on the cover page of the International Prospectus. The relative fault of the Company on the one hand and the Managers on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or by the Managers on the other hand and the parties' relative intent, knowledge, access to information

and opportunity to correct or prevent such statement or omission.

(e) The Company and the Managers agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by a pro rata allocation (even if the Managers were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) above. The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in paragraph (d) above shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating any claim or defending any such action, suit or proceeding. Notwithstanding the provisions of this Section 7, no Managers shall be required to contribute any amount in excess of the amount by which the total price of the Shares underwritten by it and distributed

to the public exceeds the amount of any damages which such Managers has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Managers' obligations to contribute pursuant to this Section 7 are several in proportion to the respective numbers of Firm Shares set forth opposite their names in Schedule I hereto (or such numbers of Firm Shares increased as set forth in Section 10 hereof) and not joint.

(f) No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action, suit or proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such action, suit or proceeding.

(g) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 7 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred. The indemnity and contribution agreements contained in this Section 7 and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect, regardless of (i) any investigation made by or on behalf of any Managers or any person controlling any Manager, the Company, its directors or officers or any person controlling the Company, (ii) acceptance of any Shares and payment therefor hereunder, and (iii) any termination of this Agreement. A successor to any Manager or any person controlling any Manager, or to the Company, its directors or officers, or any person controlling the Company, shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 7.

8. CONDITIONS OF MANAGERS' OBLIGATIONS. The several obligations of the Managers to purchase the Firm Shares hereunder are subject to the following conditions:

(a) If, at the time this Agreement is executed and delivered, it is necessary for the Registration Statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, the Registration Statement or such post-effective amendment shall have become effective not later than 5:30 P.M. New York City time, on the date hereof, or at such later date and time as shall be consented to by you, and all filings, if any, required by Rules 424 and 430A under the Act shall have been timely made; no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or any Manager, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectuses or otherwise) shall have been complied with to your satisfaction.

(b) Subsequent to the effective date of this Agreement, there shall

not have occurred (i) any change, or any development involving a prospective change, that would have a Material Adverse Effect on the Company and the Subsidiaries, taken as a whole, not contemplated by the Prospectuses, which in your opinion, as Lead Managers of the several Managers,

would materially, adversely affect the market for the Shares, or (ii) any event or development relating to or involving the Company or any officer or director of the Company which makes any statement made in the Prospectuses untrue or which, in the opinion of the Company and its counsel or the Managers and their counsel, requires the making of any addition to or change in the Prospectuses in order to state a material fact required by the Act or any other law to be stated therein or necessary in order to make the statements therein not misleading, if amending or supplementing the Prospectuses to reflect such event or development would, in your opinion, as Lead Managers for the several Managers, materially adversely affect the market for the Shares.

(c) You shall have received on the Closing Date an opinion of Milbank, Tweed, Hadley & McCloy, counsel for the Company, dated the Closing Date and addressed to you, as Lead Managers for the several Managers, in the form set forth on Schedule II hereof.

(d) You shall have received on the Closing Date an opinion of Nida & Maloney, counsel for the Company, dated the Closing Date and addressed to you, as Lead Managers of the several Managers, in the form set forth on Schedule III hereof.

(e) You shall have received on the Closing Date opinions of foreign counsel, dated the Closing Date, concerning the Company's material foreign Subsidiaries in forms reasonably satisfactory to the Lead Managers of the several Managers and addressed to you as Lead Managers of the several Managers.

(f) You shall have received on the Closing Date an opinion of Wilson Sonsini Goodrich & Rosati, counsel for the Managers, dated the Closing Date, in the form set forth on Schedule IV hereof.

(g) You shall have received letters addressed to you, as Lead Managers for the several Managers, and dated the date hereof and the Closing Date from KPMG Peat Marwick LLP, independent certified public accountants, substantially in the forms heretofore approved by you.

(h) (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been taken or, to the knowledge of the Company, shall be contemplated by the Commission at or prior to the Closing Date; (ii) there shall not have been any material change in the capital stock of the Company nor any material increase in the short-term or long-term debt of the Company (other than in the ordinary course of business) from that set forth or contemplated in the Registration Statement or the Prospectuses (or any amendment or supplement thereto); (iii) there shall not have been, since the respective dates as of which information is given in the Registration Statement and the Prospectuses (or any amendment or supplement thereto), except as may otherwise be stated in the Registration Statement and Prospectuses (or any amendment or supplement thereto), any material adverse change in the condition (financial or other), business, prospects, properties, net worth or results of operations of the Company and the Subsidiaries taken as a whole; and (iv) all the representations and warranties of the Company contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date, and you shall have received a certificate, dated the Closing Date and signed by the chief executive

officer and the chief financial officer of the Company (or such other officers as are acceptable to you), to the effect set forth in this Section 8(h) and in Section 8(i) hereof.

(i) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of its agreements herein contained and required to be performed or complied with by it hereunder at or prior to the Closing Date.

(j) The Shares shall have been listed or approved for listing, subject to notice of issuance, on the Nasdaq National Market.

(k) The closing under the U.S. Underwriting Agreement shall have occurred on the Closing Date concurrently with the closing hereunder.

(l) The Company shall have furnished or caused to be furnished to you such further certificates and documents as you shall have requested.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to you and your counsel.

Any certificate or document signed by any executive officer of the Company and delivered to you, as Lead Managers for the several Managers, or to counsel for the Managers, shall be deemed a representation and warranty by the Company to each Manager as to the statements made therein.

The several obligations of the Managers to purchase Additional Shares hereunder are subject to the satisfaction on and as of any Option Closing Date of the conditions set forth in this Section 8, except that, if any Option Closing Date is other than the Closing Date, the certificates, opinions and letters referred to in this Section 8 shall be dated the Option Closing Date in question and the opinions or letters called for by paragraphs (c), (d), (e), (f) and (g) shall be revised to reflect the sale of Additional Shares.

9. EXPENSES. The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by the Company of its obligations hereunder: (i) the preparation, printing or reproduction, and filing with the Commission of the registration statement (including financial statements and exhibits thereto), each of the Prepricing Prospectuses, the Prospectuses, and each amendment or supplement to any of them; (ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the registration statement, each International Prepricing Prospectus, the International Prospectus and all amendments or supplements to any of them, as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the original issuance and sale of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement, the U.S. Underwriting Agreement, the Master Agreement Among Underwriters, the Supplemental Agreement Among U.S. Underwriters, the Agreement Among Managers, the Agreement Between U.S. Underwriters and Managers, the International Selling Agreement, the Managers' Questionnaire, the preliminary and supplemental Blue Sky Memoranda and all other agreements or documents printed and delivered in connection with the offering of

the Underwritten Shares; (v) the registration of the Common Stock under the Exchange Act and the listing of the Shares on the Nasdaq National Market; (vi) the registration or qualification of the Shares for offer and sale under the securities laws of the several jurisdictions as provided in Section 5(g) hereof (including the reasonable fees, expenses and disbursements of counsel for the Managers relating thereto, in an amount not exceed $5,000 in the aggregate); (vii) the filing fees in connection with any filings required to be made with the National Association of Securities Dealers, Inc.; (viii) the transportation and other expenses incurred by or on behalf of representatives of the Company in connection with presentations to prospective purchasers of the Shares; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company; and (x) the performance by the Company of its other obligations under the International Underwriting Agreement and the U.S. Underwriting Agreement.

10. EFFECTIVE DATE OF AGREEMENT. This Agreement shall become effective: (i) upon the execution and delivery hereof by the parties hereto; or (ii) if, at the time this Agreement is executed and delivered, it is necessary for the registration statement or a post-effective amendment thereto to be declared effective before the offering of the Shares may commence, when notification of the effectiveness of the registration statement or such post-effective amendment has been released by the Commission. Until such time as this Agreement shall have become effective, it may be terminated by the Company, by notifying you, or by you, as Lead Managers for the several Managers, by notifying the Company.

If any one or more of the Managers shall fail or refuse to purchase Shares which it or they are obligated to purchase hereunder on the Closing Date, and the aggregate number of Shares which such defaulting Manager or Managers are obligated but fail or refuse to purchase is not more than one-tenth of the aggregate number of Shares which the Managers are obligated to purchase on the Closing Date, each non-defaulting Manager shall be obligated, severally, in the proportion which the number of Firm Shares set forth opposite its name in Schedule I hereto bears to the aggregate number of Firm Shares set forth opposite the names of all non-defaulting Managers or in such other proportion as you may specify in accordance with Section 20 of the Master Agreement Among Underwriters of Smith Barney Inc., to purchase the Shares which such defaulting Manager or Managers are obligated, but fail or refuse, to purchase. If any one or more of the Managers shall fail or refuse to purchase Shares which it or they are obligated to purchase on the Closing Date and the aggregate number of Shares with respect to which such default occurs is more than one-tenth of the aggregate number of Shares which the Managers are obligated to purchase on the Closing Date and arrangements satisfactory to you and the Company for the purchase of such Shares by one or more non-defaulting Managers or other party or parties approved by you and the Company are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Manager or the Company. In any such case which does not result in termination of this Agreement, either you or the Company shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and the Prospectus or any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Manager from liability in respect of any such default of any such Manager under this Agreement. The term "Manager" as used in this Agreement includes, for all purposes of this Agreement, any party not listed in Schedule I hereto who, with your approval and the approval of the Company, purchases Shares which a defaulting Manager is obligated, but fails or refuses, to purchase.

Any notice under this Section 10 may be given by telegram, telecopy or telephone but shall be subsequently confirmed by letter.

11. TERMINATION OF AGREEMENT. This Agreement shall be subject to termination in your absolute discretion, without liability on the part of any Manager to the Company, by notice to the Company, if prior to the Closing Date or any Option Closing Date (if different from the Closing Date and then only as to the Additional Shares), as the case may be, (i) trading in securities generally on the New York Stock Exchange, American Stock Exchange or the Nasdaq National Market shall have been suspended or materially limited, (ii) a general moratorium on commercial banking activities in New York or shall have been declared by either federal or state authorities, or (iii) there shall have occurred any outbreak or escalation of hostilities or other international or domestic calamity, crisis or change in political, financial or economic conditions, the effect of which on the financial markets of the United States is such as to make it, in your judgment, impracticable or inadvisable to commence or continue the offering of the Shares at the offering price to the public set forth on the cover page of the International Prospectus or to enforce contracts for the resale of the Shares by the Managers.

Notice of such termination may be given by telegram, telecopy or telephone and shall be subsequently confirmed by letter.

12. INFORMATION FURNISHED BY THE MANAGERS. The statements set forth in the last paragraph on the cover page, the stabilization legend on the inside front cover page, and the statements in the first through thirteen paragraphs under the caption "Underwriting" in any International Prepricing Prospectus and

in the International Prospectus, constitute the only information furnished by or on behalf of the Managers through you as such information is referred to in Sections 6(b) and 7 hereof.

13. MISCELLANEOUS. Except as otherwise provided in Sections 5, 10 and 11 hereof, notice given pursuant to any provision of this Agreement shall be in writing and shall be delivered (i) if to the Company, at the office of the Company at 6450 Via Real, Carpenteria, California 93013, Attention: Karl F. Lopker, Chief Executive Officer (with copies to Eric H. Schunk, Esq., Milbank, Tweed, Hadley & McCloy, 601 S. Figueroa St., 30th Floor, Los Angeles, CA 90017, and Joseph E. Nida, Esq., Nida & Maloney Professional Corporation, 801 Golden St., Suite 201, Santa Barbara, CA 93101), or (ii) if to you, as Lead Managers for the several Managers, care of Smith Barney Inc., 388 Greenwich Street, New York, NY 10013, Attention: Manager, Investment Banking Division (with a copy to Wilson Sonsini Goodrich & Rosati, 650 Page Mill Rd., Palo Alto, CA 95304-1050, Attention: John T. Sheridan, Esq.).

This Agreement has been and is made solely for the benefit of the several Managers, the Company, its directors and officers, and the other controlling persons referred to in Section 7 hereof and their respective successors and assigns, to the extent provided herein, and no other person shall acquire or have any right under or by virtue of this Agreement. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement shall include a purchaser from any Manager of any of the Shares in his or her status as such purchaser.

14. APPLICABLE LAW; COUNTERPARTS. This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

Please confirm that the foregoing correctly sets forth the agreement among the Company and the several Managers.

Very truly yours,

QAD INC.

By

Chief Executive Officer

Confirmed as of the date first above mentioned on behalf of themselves and the other several Managers named in Schedule I hereto.

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

As Lead Managers for the Several Managers

By: SMITH BARNEY INC.

By

Managing Director

SCHEDULE I

QAD INC.

Underwriter	Number of Firm Shares	Underwriter	Number of Firm Shares
Smith Barney, Inc.			
Cowen & Company			
Robertson, Stephens & Company LLC			
		Total	

SCHEDULE II

QAD INC.

FORM OF MILBANK, TWEED, HADLEY & MCCLOY OPINION

[TO COME]

SCHEDULE III

QAD INC.

FORM OF NIDA & MALONEY OPINION

[TO COME]

SCHEDULE IV

QAD INC.

FORM OF WILSON SONSINI GOODRICH & ROSATI OPINION

[TO COME]

ARTICLES OF INCORPORATION

OF

QAD.INC

I.

NAME

The name of the Corporation is qad.inc

II.

PURPOSE

The Purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California, other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

III.

INITIAL AGENT FOR SERVICE OF PROCESS

The name and address in the State of California of this Corporation's initial agent for service of process is:

Karl F. Lopker
1005 Mark Avenue
Carpinteria, CA 93103

IV.

DIRECTORS

The powers of the Corporation shall be exercised, its

property controlled and its affairs conducted by a Board of Directors. The number (which may be one), qualifications, time and manner of electing, terms of office, duties and compensation, if any, and manner of removing Directors and filling vacancies, shall be as set forth in the Bylaws of this Corporation.

V.

SHARES OF STOCK

The Corporation is authorized to issue two classes of shares, to be designated respectively "Common Stock" and "Preferred Stock". The total number of shares which this Corporation is authorized to issue is 10,100,000 shares, of which 10,000,000 shall be shares of Common stock and 100,000 shall be shares of Preferred Stock.

VI.

PREFERRED STOCK

Preferred Stock may be issued from time to time in one or more series, and the Board of Directors of the Corporation is hereby authorized to determine the designation of any such series, to fix the number of shares of any such series, and to determine and alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock. The Board of Directors is also authorized, within the limits and restrictions stated in any resolution or resolutions of the Board originally

fixing the number of shares constituting a series of Preferred Stock, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of such series subsequent to the issue of shares of that series.

Dated: March _____, 1986

\s\ Joseph E. Nida

Joseph E. Nida, Incorporator

I hereby declare that I am the person who executed the foregoing Articles of Incorporation, which execution is my act and deed.

\s\ Joseph E. Nida

Joseph E. Nida

EXHIBIT 3.2

CERTIFICATE OF AMENDMENT
OF
RESTATED ARTICLES OF INCORPORATION

OF

qad.inc.

Pamela M. Lopker and Karl F. Lopker certify that:

1. They are the President and Secretary of qad.inc., a California corporation (the "Corporation").

2. Article III, Section 4, Paragraph (a), entitled CORPORATION'S RIGHT TO REPURCHASE UPON TERMINATION OF AFFILIATION of the Restated Articles of Incorporation of this Corporation is deleted in its entirety, and a new Paragraph (a) inserted to read as follows:

"4. RESTRICTIONS ON CLASS A COMMON STOCK.

(a) CORPORATION'S RIGHT TO REPURCHASE UPON TERMINATION OF AFFILIATION. All shares of Class A Common Stock held of record by a person who is an employee or director of, or a consultant to, the Corporation or any of its subsidiaries shall be subject to the Corporation's right to repurchase all of such shares in the event that such holder's affiliation with the Corporation as an employee, director, or consultant is terminated. Such right or repurchase upon termination of affiliation shall also be applicable to all shares of Class A Common Stock which such person has the right to acquire subsequent to his termination of affiliation pursuant to any of the Corporation's employee benefit plans or pursuant to any option or other contractual right to acquire shares of Class A Common Stock in effect at the date of such termination of affiliation. An authorized leave of absence approved in accordance with the Corporation's policy from time to time in effect shall not constitute a termination of affiliation for purposes of this subparagraph (a); PROVIDED, HOWEVER, that the issuance of a formal personnel action notice by the Corporation's personnel department advising an employee that his leave or absence is terminated shall constitute a termination of affiliation for purposes of this subparagraph (a). The Corporation's right of repurchase shall be exercised by mailing written notice to such holder at his address of record on the Corporation's stock record books written ninety (90) days following the termination of such affiliation, which notice shall request delivery of certificates representing the shares of Class A Common Stock, duly endorsed in blank or to the Corporation, free and clear of all liens, claims, charges, and encumbrances of any

kind whatsoever. If the Corporation repurchases these shares, the price shall be the higher of the original purchase price paid for such shares by such holder if such shares were acquired from the Corporation by such holder or the Formula Price (as hereinafter defined) per share (i) on the date of such termination of affiliation, in the case of shares owned by the holder at that date and shares issuable to such holder subsequent to that date pursuant to any option or other contractual right to acquire shares of Class A Common Stock which was outstanding at that date; or (ii) on the date such shares are distributed to such holder, in the case of shares distributable to such holder subsequent to his termination of affiliation pursuant to any of the Corporation's employee benefit plans. For purposes of the foregoing sentence, an adjustment shall be made to the original purchase price paid for such shares to account for any changes in the capitalization of the Company, as determined by the Board of Directors. If for any reason the Corporation is unable to make payment directly to a holder, then the Corporation may make such payment by depositing the purchase price in an account for the benefit of such holder and such shares of Class A Common Stock shall thereby be deemed to have been transferred to the Corporation on the date cash payment is made and no longer outstanding and all rights of the holder with respect to such shares terminated."

3. The foregoing amendment of the Restated Articles of incorporation has been duly approved by the Board of Directors of this Corporation.

4. The foregoing amendment of the Restated Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Sections 902 and 903 of the Corporations Code. The total number of outstanding Class A Common shares of the Corporation is Ten Million (10,000,000). The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was one hundred percent (100%). The total number of outstanding Class B Common shares of the Corporation is Two (2). The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was one hundred (100%).

We further declare under the penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated: March 11, 1994

/s/ Pamela Meyer Lopker

Pamela M. Lopker, President

/s/ Karl F. Lopker

Karl F. Lopker, Secretary

EXHIBIT 3.3

CERTIFICATE OF AMENDMENT

OF ARTICLES OF INCORPORATION OF

qad, inc.

PAMELA M. LOPKER and KARL F. LOPKER do hereby certify that:

1. That are the President and Secretary, respectively, of qad.inc., a California corporation (the "Corporation").

2. Article I of the Articles of Incorporation of this Corporation is hereby amended to read as follows:

The name of the corporation is QAD, INC.

3. The foregoing amendment of Articles of Incorporation has been duly approved by the Board of Directors of this Corporation.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the Corporations Code. The total number of voting shares of the Corporation is 10,494,981. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%.

I further declare, under penalty of perjury, under the laws of the State of California, that the matters set forth in this Certificate are true and correct of my own knowledge.

Dated: May 22, 1996

/s/ Pamela M. Lopker

PAMELA M. LOPKER,
President

/s/ Karl F. Lopker

KARL F. LOPKER,
Secretary

EXHIBIT 3.4

CERTIFICATE OF AMENDMENT

OF ARTICLES OF INCORPORATION OF

QAD, INC.

PAMELA M. LOPKER and KARL F. LOPKER do hereby certify that:

1. That they are the President and Secretary, respectively, of QAD, Inc., a California corporation (the "Corporation").

2. Article I of the Articles of Incorporation of this Corporation is hereby amended to read as follows:

   The name of the corporation is QAD Inc.

3. The foregoing amendment of Articles of Incorporation has been duly approved by the Board of Directors of this Corporation.

4. The foregoing amendment of Articles of Incorporation has been duly approved by the required vote of shareholders in accordance with Section 902 of the Corporations Code. The total number of voting shares of the Corporation is 10,816,842. The number of shares voting in favor of the amendment equaled or exceeded the vote required. The percentage vote required was more than 50%.

   We further declare, under penalty of perjury, under the laws of the State of California, that the matters set forth in this Certificate are true and correct of our own knowledge.

Dated: December 16, 1996

/s/ Pamela M. Lopker

Pamela M. Lopker
President

/s/ Karl F. Lopker

Karl F. Lopker
Secretary

Exhibit 3.6

RESTATED BYLAWS

OF

qad.inc.

Originally adopted on: March 18, 1986
Amendments are listed on page i

RESTATED BYLAWS

OF

qad.inc.

AMENDMENTS

Section	Effect of Amendment	Date of Amendment
All	Restatement	11/30/93

RESTATED BYLAWS

OF

qad.inc.

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RESTATED BYLAWS

OF

qad.inc.

ARTICLE I -- OFFICES

SECTION 1: PRINCIPAL OFFICES. The Board of Directors (the "Board") of the Corporation shall fix the location of the principal executive office of the Corporation at any place within or without the State of California.

SECTION 2: OTHER OFFICES. The Corporation may also have offices at such other places as the Board may from time to time designate, or as the business of the Corporation may require.

ARTICLE II -- SHAREHOLDERS' MEETINGS

SECTION 1: PLACE. All meetings of the shareholders shall be at any place within or without the State of California designated by the Board or by unanimous written consent of all the persons entitled to vote thereat, given either before or after the meeting. In the absence of any such designation, shareholders' meeting. shall be held at the principal executive office of the Corporation.

SECTION 2: ANNUAL MEETINGS. The annual meeting of the shareholders shall be held each year on a date and at a time designated by the Board. The date so designated shall be within fifteen (15) months after the last annual meeting. At each annual meeting, there shall be elected a Board to serve during the ensuing year and until their successors are duly elected and qualified, and such other business shall be transacted as shall properly come before the meeting.

If the annual meeting of the shareholders is not held as herein prescribed, the election of directors may be held at any meeting thereafter called pursuant to these Bylaws.

SECTION 3: SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose whatsoever, unless otherwise prescribed by statute, may be called at any time by the Chairman of the Board, the President or by the Board, or by one or more shareholders holding not less than ten percent (10%) of the voting power of the Corporation.

If a special meeting is called by any person or persons other than the Board, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board, the President, any Vice President or to the Secretary. The request shall also specify the time of the meeting which shall be not less than thirty-five (35) nor more than sixty (60) days after receipt to the request. The officer receiving the request shall forthwith cause notice to be given to the shareholders entitled to vote that a meeting will be held at the time specified. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the

notice. Nothing contained in this paragraph of this Section 3 shall be construed as limiting, fixing or affecting the time or notice requirements for shareholder meetings called by the Board.

SECTION 4: NOTICE. Notice of meetings of the shareholders of the Corporation shall be given in writing to each shareholder entitled to vote, either personally or by first-class mail or other means of written communication, charges prepaid, addressed to the shareholder at his address appearing on the books of the Corporation or given by the shareholder to the Corporation for the purpose of notice. Notice of any such meeting of shareholders shall be sent to each shareholder entitled thereto not less than ten (10) no more than sixty (60) days before the meeting. Said notice shall state the place, date and hour of the meeting and, (a) in the case of special meetings, the general nature of the business to be transacted, and no other business may be transacted, or (b) in the case of annual meetings, those matters which the Board, at the time of the mailing of the notice, intends to present for action by the shareholders, and (c) in the case of any meeting at which directors are to be elected, the names of the nominees intended at the time of the mailing of the notice to be presented by management for election.

If an action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which director has a direct or indirect financial interest, pursuant to Section 310 of the California Corporations Code (the "Code"), (ii) an amendment of the Articles of Incorporation, pursuant to Section 902 of the Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of the Code, (iv) a voluntary

dissolution of the corporation pursuant to Section 1900 of the Code, or (v) a dissolution distribution other than in accordance with the rights of any outstanding preferred shares, pursuant to Section 2007 of the Code, then the notice shall also state the general nature of that proposal.

SECTION 5: WAIVER OF NOTICE. The transactions of any meeting of shareholders, however called and noticed, and whenever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of the meeting, or an approval of the minutes thereof. Neither the business to be transacted at nor the purpose of any annual or special meeting of shareholders need be specified in any written waiver of notice or consent to the holding of such meeting or approval of the minutes thereof, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Article II, Section 4 of these Bylaws, the waiver of notice or consent or approval shall state the general nature of the proposal. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

SECTION 6: RECORD DATES. In the event the Board fixes a day for the determination of shareholders of record entitled to vote as provided in Section 1 of Article V of these Bylaws, then, subject to the provisions of the Code, only persons in whose name shares entitled to vote stand on the stock records of the Corporation at the close of business on such day shall be entitled to vote.

If no record date is fixed:

The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held;

The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, when no prior action by the Board is necessary, shall be the day on which the first written consent is given; and

The record date for determining shareholders for any other purpose

shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting, but the Board shall fix a new record date if the meeting is adjourned for more than forty-five (45) days.

SECTION 7: INSPECTORS OF ELECTION. Before any meeting of shareholders, the board of directors may appoint an inspector or inspectors of election to act at the meeting or its adjournment. If no inspector of election is so appointed, then the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint an inspector or inspectors of election to act at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting pursuant to the request of one (1) or more shareholders or proxies, then the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, then the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

1. determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

2. receive votes, ballots or consents;

3. hear and determine all challenges and questions in any way arising in connection with the right to vote;

4. count and tabulate all votes or consents;

5. determine when the polls shall close;

6. determine the result; and

7. do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

SECTION 8: QUORUM. The presence in person or by proxy of the persons entitled to vote a majority of the shares entitled to vote at any meeting constitutes a quorum for the transaction of business. In the absence of a quorum, any meeting of shareholders may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present

in person or represented by proxy thereat, but no other business may be transacted, except as provided in the next paragraph. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

SECTION 9: ADJOURNED MEETINGS. Any shareholders' meeting may be adjourned from time to time by the vote of the holders of a majority of the voting shares present at the meeting either in person or by proxy. Notice of any adjourned meeting need not be given unless a meeting is adjourned for forty-five

(45) days or more from the date set for the original meeting.

SECTION 10: VOTING. The voting at all meetings of shareholders need not be by ballot, but any qualified shareholder before the voting begins may demand a stock vote whereupon such stock vote shall be taken by ballot, each of which shall state the name of the shareholder voting and the number of shares voted by such shareholder, and if such ballot be cast by a proxy, it shall also state the name of such proxy.

At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy appointed in a writing subscribed by such shareholder and bearing a date not more than eleven (11) months prior to said meeting, unless the writing states that it is irrevocable and is held by a person specified in Section 705(e) of the Code, in which event it is irrevocable for the period specified in said writing.

SECTION 11: PROXIES. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the Secretary. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewritten telegraphic transmission or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person who executed it, before the vote pursuant to that proxy, by a writing delivered to the Corporation stating that the proxy is revoked, or by a subsequent proxy executed by the person who executed the proxy, or by attendance at the meeting and the vote in person by the person who executed the proxy; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the Corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy,

unless otherwise provided in the proxy. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Code.

SECTION 12: CONSENT TO SHAREHOLDER ACTION. Any action which may be taken at any meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, that (i) unless the consents of all shareholders entitled to vote have been solicited in writing, notice of any shareholder approval without a meeting by less than unanimous written consent shall be given as required by the Code, and (ii) directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors.

Any written consent may be revoked by a writing received by the Secretary of the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

SECTION 13: CUMULATIVE VOTING FOR ELECTION OF DIRECTORS. Provided the candidate's name has been placed in nomination prior to the voting and one or more shareholders has given notice at the meeting prior to the voting of the shareholder's intent to cumulate the shareholder's votes, every shareholder entitled to vote at any election for directors shall have the right to cumulate such shareholder's votes and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the shareholder's shares are normally entitled, or distribute the shareholder's votes on the same principle among as many candidates as the shareholder shall think fit. The candidates receiving the highest number of votes of the shares entitled to be voted for them up to the number of directors to be elected by such shares are elected.

ARTICLE III -- BOARD OF DIRECTORS

SECTION 1: POWERS. Subject to any limitations in the Articles of Incorporation or these Bylaws and to any provision of the Code requiring shareholder authorization or approval for a particular action, the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised by, or under the direction of, the Board. The Board may delegate the

management of the day-to-day operation of the business of the Corporation to a management company or other person provided that the business and affairs of the Corporation shall be managed and all corporate powers shall be exercised, under the ultimate direction of the Board.

SECTION 2. NUMBER, TENURE AND QUALIFICATIONS. The number of directors of the Corporation shall be not less than three (3) nor more than seven (7). The exact number of directors shall be three (3) until changed, within the limits specified above, by a bylaw amending this Section 2, duly adopted by the Board or by the shareholders. The indefinite number of directors may be changed, or a definite number may be fixed without provision for an indefinite number, by a duly adopted amendment to the Articles of Incorporation or by an amendment to this Bylaw duly adopted by the vote or written consent of holders of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the fixed number or the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting, or the shares not consenting in the case of an action by written consent, are equal to more than sixteen and two-thirds percent (16-2/3%) of the outstanding shares entitled to vote thereon. No amendment may change the stated maximum number of authorized directors to a number greater than two (2) times the stated minimum number of directors minus one (1).

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Directors shall be elected at each annual meeting of shareholders to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

SECTION 3: REGULAR MEETINGS. A regular annual meeting of the Board shall be held without other notice than this Bylaw immediately after, and at the same place as, the annual meeting of shareholders. The Board may provide for other regular meetings from time to time by resolution.

SECTION 4: SPECIAL MEETINGS. Special meetings of the Board may be called at any time by the Chairman of the Board, the President or any Vice President or the Secretary or any two (2) directors, or one (1) director when one (1) director constitutes the entire Board. Written notice of the time and place of all special meetings of the Board shall be delivered personally or by telephone or telegraph to each director at least forty-eight (48) hours before the meeting, or sent to each director by first-class mail, postage prepaid, at least four (4) days before the meeting.

Such notice need not specify the purpose of the meeting. Notice of any meeting of the Board need not be given to any director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting prior thereto or at its commencement, the lack of notice to such director.

SECTION 5: NOTICE OF SPECIAL MEETINGS. Notice of the time and place of all special meetings of the Board shall be delivered personally or by telephone or telegraph to each director at least forty-eight (48) hours before the meeting, or sent to each director by first-class mail, postage prepaid, at least four (4) days before the meeting. Such notice need not specify the purpose of

the meeting.

SECTION 6: PLACE OF MEETINGS. Meetings of the Board may be held at any place within or without the State of California, which has been designated in the notice, or if not stated in the notice or there is no notice, the principal executive office of the Corporation or as designated by the resolution duly adopted by the Board.

SECTION 7: PARTICIPATION BY TELEPHONE. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all numbers participating in such meeting can hear one another.

SECTION 8: QUORUM. A quorum at all meetings of the board shall be a majority of the number of directors then in office, unless the authorized number of directors is one (1), in which case one (1) director constitutes a quorum. In the absence of a quorum, a majority of the directors present may adjourn any meeting to another time and place. If a meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment.

SECTION 9: ACTION AT MEETING. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 10: WAIVER OF NOTICE. The transactions of any meeting of the Board, however called and noticed or wherever held, are as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting, or an approval of the minutes thereof. All such

waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

SECTION 11: ACTION WITHOUT MEETING. Any action required or permitted to be taken by the Board may be taken without a meeting, if all members of the Board individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

SECTION 12: REMOVAL. The Board may declare vacant the office of a director who has been declared of unsound mind by an order of court or who has been convicted of a felony.

The entire Board or any individual director may be removed from office without cause by a vote of shareholders holding a majority of the outstanding shares entitled to vote at an election of directors; provided, however, that unless the entire Board is removed, no individual director may be removed when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes cast were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

In the event an office of a director is so declared vacant or in case the Board or any one or more directors be so removed, new directors may be elected at the same meeting.

SECTION 13: RESIGNATIONS. Any director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of the Corporation, unless the notice specifies a later time for

the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

SECTION 14: VACANCIES. Except for a vacancy created by the removal of a director, all vacancies in the Board, whether caused by resignation, death or otherwise, may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, and each director so elected shall hold office until his successor is elected at an annual, regular or special meeting of the shareholders. Vacancies created by the removal of a director may be filled only by approval of the shareholders. The shareholders may elect a director at any time to fill any vacancy not filled by the directors. Any such election by written consent requires the

consent of a majority of the outstanding shares entitled to vote.

SECTION 15: COMPENSATION. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the Board. This Section 15 shall not be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee or otherwise, and receiving compensation for those services.

SECTION 16: COMMITTEES. The Board may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of one (1) or more director(s), to serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board in the management of the business and affairs of the Corporation, except with respect to (i) the approval of any action requiring shareholders' approval or approval of the outstanding shares, (ii) the filling of vacancies on the Board or any committee, (iii) the fixing of compensation of directors for serving on the Board or a committee, (iv) the adoption, amendment or repeal of Bylaws, (v) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable, (vi) a distribution to shareholders, except at a rate or in a periodic amount or within a price range determined by the Board, and (vii) the appointment of other committees of the Board or the members thereof.

SECTION 17: MEETINGS AND ACTION OF COMMITTEES. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these Bylaws dealing with meetings of directors, with such changes in the context of those Bylaws as are necessary to substitute the committee and its members for the Board and its members, except that the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee. Special meetings of committees may also be called by resolution of the Board, and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the governance of any committee not inconsistent with the provisions of these Bylaws.

ARTICLE IV -- OFFICERS

SECTION 1: NUMBER AND TERM. The officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, a Chief Financial Officer, and, if the Board so desires, one or more Vice Presidents, all of which shall be chosen by the Board. In addition, the Board may appoint such other officers as may be deemed expedient for the proper conduct of the business of the Corporation, each of whom shall have such authority and perform such duties as the Board may from time to time determine. The officers to be appointed by the

Board shall be chosen annually at the regular meeting of the Board held after the annual meeting of shareholders and shall serve at the pleasure of the Board. If officers are not chosen at such meeting of the Board, they shall be chosen as soon thereafter as shall be convenient. Each officer shall hold office until his successor shall have been duly chosen or until his removal or resignation.

SECTION 2: INABILITY TO ACT. In the case of absence or inability to act of any officer of the Corporation and of any person herein authorized to act in his place, the Board may from time to time delegate the powers or duties of such officer to any other officer, or any director or other person whom it may select.

SECTION 3: REMOVAL AND RESIGNATION. Any officer chosen by the Board may be removed at any time, with or without cause, by the affirmative vote of a majority of all the members of the Board.

Any officer chosen by the Board may resign at any time by giving written notice of said resignation to the Corporation. Unless a different time is specified therein, such resignation shall be effective upon its receipt by the Chairman of the Board, the President, the Secretary or the Board.

SECTION 4: VACANCIES. A vacancy in any office because of any cause may be filled by the Board for the unexpired portion of the term.

SECTION 5: CHAIRMAN OF THE BOARD. The Chairman of the Board shall be the Chief Executive Officer of the Corporation and when present, shall preside at all meetings of the shareholders and the Board. He shall perform such duties and possess such powers as are usually vested in the office of the Chief Executive Officer. If the Board appoints a Vice-Chairman of the Board, he shall in the absence or disability of the Chairman of the Board, perform the duties and exercise the powers of the Chairman of the Board and shall perform such other duties and possess such other powers as may from time to time be vested in him by the Board.

SECTION 6: PRESIDENT. The President shall be the general manager and chief operating officer of the Corporation. Subject to the control of the Board, the President shall have general supervision of the affairs of the Corporation, shall sign or countersign or authorize another officer to sign all certificates, contracts, and other instruments of the Corporation as authorized by the Board, shall make reports to the Board and shareholders, and shall perform all such other duties as are incident to such office or are properly required by the Board.

SECTION 7: VICE PRESIDENT. In the absence of the President, or in the event of such officer's death, disability or refusal to act, the Vice President, if any, or in the event there be more than one Vice President, the Vice Presidents in the order designated at the time of their selection, or in the absence of any such designation, then in the order of their selection, shall perform the duties of the President, and when so acting, shall have all the powers and be subject to all restrictions upon the President. Each Vice President shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board.

SECTION 8: SECRETARY. The Secretary shall see that notices for all meetings are given in accordance with the provisions of these Bylaws and as required by law, shall keep minutes of all meetings, shall have charge of the seal and the corporate books, and shall make such reports and perform such other duties as are incident to such office, or as are properly required by the President or by the Board.

The Assistant Secretary or the Assistant Secretaries, if any, in the order of their seniority, shall, in the absence or disability of the Secretary, or in the event of such officer's refusal to act, perform the duties and exercise the powers and discharge such duties as may be assigned from time to time by the President or by the Board.

SECTION 9: CHIEF FINANCIAL OFFICER. The Chief Financial Officer may also be designated by the alternate title of "Treasurer." The Chief Financial Officer shall have custody of all moneys and securities of the Corporation and

shall keep regular books of account. Such officer shall disburse the funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Board from time to time as may be required of such officer, an account of all transactions as Chief Financial Officer and of the financial condition of the Corporation. Such officer shall perform all duties incident to such office or which are properly required by the President or by the Board.

The Assistant Chief Financial Officer or the Assistant Chief Financial Officers, if any, in the order of their seniority, shall, in the absence or disability of the Chief Financial Officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board.

SECTION 10: SALARIES. The salaries of the officers shall be fixed from time to time by the Board and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the Corporation.

SECTION 11: OFFICERS HOLDING MORE THAN ONE OFFICE. Any two or more offices may be held by the same person.

ARTICLE V -- MISCELLANEOUS

SECTION 1: RECORD DATE AND CLOSING OF STOCK BOOKS. The Board may fix a time in the future as a record date for the determination of the shareholders entitled to notice of and to vote at any meeting of shareholders or entitled to receive payment of any dividend or distribution, or any allotment of rights, or to exercise rights in respect to any other lawful action. The record date so fixed shall not be more than sixty (60) nor less than ten (10) days prior to the date of the meeting or event for the purposes of which it is fixed. When a record date is so fixed, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date.

The Board may close the books of the Corporation against transfers of shares during the whole or any part of a period of not more than sixty (60) days prior to the date of a shareholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion or exchange of shares.

SECTION 2: CERTIFICATES FOR SHARES. Certificates of stock shall be issued in numerical order and each shareholder shall be entitled to a certificate signed in the name of the Corporation by the President or a Vice President, and the Chief Financial Officer, the Secretary or, if any, an Assistant Secretary, certifying to the number of shares and the class or series of shares owned by such shareholder. Any or all of the

signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue. Prior to the due presentment for registration of transfer in the stock transfer book of the Corporation, the registered owner shall be treated as the person exclusively entitled to vote, to receive notifications and otherwise to exercise all the rights and powers of an owner,

except as expressly provided otherwise by the laws of the State of California. Notwithstanding anything herein contained to the contrary, certificates for shares issued pursuant to the Corporation's 1994 Stock Purchase Plan or the Corporation's 1994 Stock Award Plan shall be delivered to the trustee, escrow agent or other designated party named pursuant to the relevant Plan in accordance with such Plan.

SECTION 3: REPRESENTATION OF SHARES IN OTHER CORPORATIONS. Shares of other Corporations standing in the name of this Corporation may be voted or represented and all incidents thereto may be exercised on behalf of the Corporation by the President or any Vice President and the Chief Financial Officer or the Secretary or an Assistant Secretary.

SECTION 4: FISCAL YEAR. The fiscal year of the Corporation shall end on such date as determined by the Board.

SECTION 5: ANNUAL REPORTS. So long as the Corporation shall have fewer than one hundred (100) shareholders of record, the Annual Report to shareholders, described in the Code, is expressly waived and dispensed with to the extent permitted by law.

SECTION 6: AMENDMENTS. Bylaws may be adopted, amended, or repealed by the affirmative vote or the written consent of a majority of the outstanding shares of the Corporation. Subject to the right of shareholders to adopt, amend, or repeal Bylaws, Bylaws may be adopted, amended, or repealed by the Board, except that a Bylaw amendment thereof changing the authorized number of directors may be adopted by the Board only if these Bylaws permit an indefinite number of directors and the Bylaw or amendment thereof adopted by the Board fixes the exact number of directors within the limits specified in these Bylaws.

SECTION 7: INTERPRETATION. Reference in these Bylaws to any provision of the Code shall be deemed to include all amendments thereof.

SECTION 8: CONSTRUCTION; DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Code shall govern the construction of these Bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a Corporation and a natural person.

SECTION 9: LIABILITY OF DIRECTORS. The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permitted under California law.

SECTION 10: INDEMNIFICATION OF CORPORATE AGENTS. The Corporation shall indemnify its agent against liabilities to the maximum extent permitted by law. Without limiting the generality of the foregoing, the Corporation shall indemnify each of its agents against expenses, judgments, fines, settlements and other amounts, actually and reasonably incurred by such person by reason of such person's having been made or having threatened to be made a party to a proceeding in excess of the indemnification otherwise permitted by the provisions of Section 317 of the Code, subject to the limits on such excess indemnification set forth in Section 204 of the Code, and the Corporation shall advance the expenses reasonably expected to be incurred by such agent in defending any such proceeding upon receipt of the undertaking required by subdivision (f) of said Section 317. The terms "agent", "proceeding" and "expenses" made in this Section 9 shall have the same meaning as such terms in said Section 317.

SECTION 11: INDEMNITY AGREEMENTS. The Board is authorized to enter into a contract with any director, officer, employee or agent of the Corporation, or any person who is or was serving at the request of the Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, including employee benefits plans, or any person who was a director, officer, employee or agent of a Corporation which was a predecessor Corporation of the Corporation or of another enterprise at the request of such predecessor Corporation, providing for indemnification rights equivalent to or, if the Board so determines and to the

extent permitted by applicable law, greater than, those provided for in this Article V.

SECTION 12: INSURANCE INDEMNIFICATION. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation against any liability asserted against or incurred by such person in such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article V.

SECTION 13: INDEMNITY NOT EXCLUSIVE. The indemnification provided by this Article V shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaw, agreement, vote of shareholders or directors or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office. The rights to indemnity hereunder shall continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the heirs, executors, and administrators of the person.

CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify that:

1. I am the duly elected, acting and qualified Secretary of qad.inc., a California corporation (the "Corporation").

2. The attached Restated Bylaws, as duly adopted by the Board of Directors of the Corporation on November 30, 1993, comprising 15 pages, are the true and complete copy of the Bylaws of the Corporation as in effect on the date hereof.

IN WITNESS WHEREOF, I have hereunto subscribed my name this 30 day of November, 1993.

/s/ Karl F. Lopker

Karl F. Lopker, Secretary

Exhibit 10.1

THE QAD INC.
1994 STOCK
OWNERSHIP PROGRAM

Rev 2.0

April 13, 1994

QAD Inc. Stock Program
Operations Guidelines
And Procedures

Rev 2.0

April 13, 1994

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1.0 INTRODUCTION

QAD Inc. (the "Company") has adopted the QAD Inc 1994 Stock Program (the "Stock Program") for the benefit of all of its employees whether employed on a full-time or part-time basis by the Company. The Stock Program is divided into two sections, each governed by a separate plan document (the "Plan Documents"). They are:

the qad, inc 1994 Stock Purchase Plan (the "Purchase Plan") and

the qad, inc 1994 Stock Award Plan (the "Award Plan").

The Purchase Plan component of the Stock Program allows eligible employees to purchase shares of the Company's Class A common stock by using one or both of two methods:

direct purchases by the payment of the stock's current Formula Price (as defined below) in cash, and/or

purchases using accumulated payroll deductions that the employee has elected to have withheld under the Purchase Plan at 95% of the current Formula Price.

The Award Plan component of the Stock Program allows the Company to make grants of its Class A Common Stock to eligible employees as rewards for their contributions to the success of the Company.

A total of 2,400,000 shares of Class A Common Stock have been reserved for issuance pursuant to the Purchase Plan and the Award Plan (hereinafter collectively referred to as the "Plans").

This document addresses operating procedures and guidelines for the Purchase Plan and the Award Plan as approved by the California Commissioner of Corporations and in the various jurisdictions within which the Company's employees reside. In the event of any conflict between this document and the above Plan Documents, the terms and conditions of the approved Plan Documents, as they may be amended from time to time, will govern.

2.0 RISK FACTORS

Investment in the Company's Class A Common Stock involves risk and should be regarded as speculative. As a result, the purchase of Class A Common Stock should be considered only by persons who can reasonably afford a loss of their entire investment. In addition, participation in the Stock Program does not provide any of the tax benefits of 401(k) and similar deferred compensation plans. Prospective participants in the Stock

Program should carefully consider, in addition to matters set forth elsewhere in this QAD Inc. Stock Program Operations Guidelines And Procedures the following factors relating to the business of the Company and their participation in the Stock Program.

2.1 Market Environment

The market for the Company's products is a relatively new and emerging market. The Company's future financial performance will depend principally upon the continued development of the market for its software and continued market acceptance of such software. There can be no assurance that the market will continue to develop.

Because of rapid technological changes in the industry, the Company will be required to enhance its existing products on a timely basis and to incorporate the latest technological advances in computer software and hardware. No assurance can be given that the Company will have the resources required to respond to technological changes or to compete successfully in the future. Many software companies have experienced delays in completing the development of new products, and there can be no assurance that the Company will not encounter difficulties that could delay or prevent the successful introduction and marketing of new and enhanced versions of its products. In addition, new product announcements, pricing changes, strategic alliances or acquisitions and other actions by competitors could adversely affect the Company.

2.2 Limitations on Protection of Intellectual Property

The extent to which U.S. and foreign copyright and intellectual property laws protect software as well as the enforceability of end user license agreements has not been fully determined. Changes in the interpretation of copyright or other intellectual property laws could expand or reduce the extent to which the Company or its competitors are able to protect their software.

2.3 Dependence on Key Employees

The Company believes that its success will depend to a significant extent upon the efforts and abilities of a strong group of marketing, support, engineering, administrative and executive personnel. The loss of the services of one or more key personnel could have a material adverse effect on the Company. The Company's business will also be dependent upon its ability to continue to attract and retain qualified personnel who are in great demand. There can be no assurance that the Company will be successful in attracting and retaining such personnel.

2.4 Liquidity

There is no public market for the Class A Common Stock, and none is expected to develop in the foreseeable future. The Company plans to maintain a limited secondary market in the Class A Common Stock, but there can be no assurances that such secondary market will be adequate to allow a holder of Class A Common Stock sufficient opportunity to liquidate his or her investment. In addition, the Company's Plan Documents and Restated Articles of Incorporation provide restrictions on transfer and a right of first refusal. Accordingly, a participant in the Stock Program may be unable to liquidate an investment in the Class A Common Stock for an indefinite period. Shares of Class A Common Stock sold pursuant to the Stock Program will be considered restricted securities which may not be resold without registration with the Securities and Exchange Commission or the availability of an exemption from the registration requirements. The certificates evidencing the Class A Common Stock will bear a legend referring to these restrictions on transfer.

2.5 Control by Existing Shareholders

Pamela M. Lopker and Karl F. Lopker will continue to own a majority of the Company's capital stock after the sale of the shares offered pursuant to the Stock Program and thus will continue to control the election of directors and matters requiring shareholder approval.

2.6 Determination of Formula Price

The Formula Price for the Class A Common Stock is the fair market value of the stock as determined by the Company under a formula established in connection with an independent appraisal. The current Formula Price should not be regarded as an indication of any future Formula Price of the Company's Class A Common Stock.

3.0 RESTRICTIONS ON SALE

Sale of the Company's Class A Common Stock has been authorized pursuant to

a permit issued by the California Commissioner of Corporations, subject to certain restrictions on transfer. The Commissioner's authorization is permissive only, and does not constitute a recommendation or endorsement of the share of Class A Common Stock. Accordingly, each certificate for share purchased under the Stock Program will bear the following legend in addition to any other legends that may be required by state of federal securities laws:

It is unlawful to consummate a sale or transfer of this security, or any interest therein, or to receive any consideration therefor, without the prior written consent of the Commissioner of Corporations of the State of California, except as permitted in the Commissioner's rules.

The restriction on transfer will not prevent sales of shares back to the Company as contemplated by the Stock Program.

The Company will provide to each employee, at the time the employee purchases or receives awards of stock under the Stock Program, with a copy of Section 260.141.11 of the Rules of the California Commissioner of Corporations, which describes the restrictions on transfer imposed by the Commissioner's permit.

4.0 GOVERNANCE

4.1 Board of Directors

The Stock Operations Program is administered by the QAD Inc. Board of Directors and by the Stock Operations Team appointed by the Board of Directors. The Board of Directors:

Determines the amount of stock available for purchase or award each year.

Approves purchases and awards for the Executive Committee and the Stock Operations Team.

Appoints members of the Stock Operations Team.

Audits activities of the Stock Operations Team.

Approves stock purchase and award guidelines.

4.2 Stock Operations Team

The Stock Operations Team consists of at least three members. There are representative members from each of the operating regions within QAD, as well as Corporate operations in Carpinteria. The Team meets quarterly before each Stock Trade Date to transact their business. The Team:

Establishes and announces the Formula Price before each Stock Trade Date

Approves all stock purchases and awards for all employees other than the Executive Committee and themselves.

Creates and modifies policies and operating procedures.

Monitors and audits the day-to-day stock operations for legal and

procedural compliance.

Except for the authority exercised by the Board, described in Section 4.1, the Stock Operations Team, has sole discretionary authority under this Plan to determine all transactions and/or to interpret the terms of this Plan. All such determinations and interpretations by the Stock Operations Team shall be conclusive and binding on all parties, including the Company, the Plan, the participants and beneficiaries.

5.0 STOCK PROGRAM

There are two separate phases of the QAD Stock Program:

The Initial Offering, or startup phase, and

The ongoing or Regular Program.

5.1 Initial Offering

Prior December 31, 1993, the Company had provided each employee with the one time opportunity to elect to purchase shares of the Company's Class A Common Stock valued at up to 8% of the amount of the employee's cumulative gross cash compensation (minus living allowances) received from the Company from his or her hire date to the end of 1993 (the "Initial Offering"). These shares were purchased at the then current Formula Price of $4.36 per share. This Formula Price was established in connection with an independent appraisal by the firm of Houlihan, Lokey Howard & Zukin in November 1993.

It was necessary for each employee to buy stock in multiples of the Minimum Block amount of 100 shares.

Each employee had until December 31, 1993, to specify the exact percentage that he or she wished to purchase. The employee must have returned (either directly, by mail, or by fax) a completed QAD Inc. Stock Initial Offering Commitment form (form stock01) to the Organizational Development and Human Resources Department (ODHR) in Carpinteria.

If an employee did not submit a completed a QAD Inc. Stock Initial Offering Commitment form (form stock01) to the Stock Operations Team by December 31, 1993, the employee was considered as not interested, and was not able to participate in the Initial Offering. Any forms received after that time were deemed invalid. Election not to participate in the Initial Offering does not preclude participation in the regular program of the Purchase Plan.

The Company could not, however, consummate each sale before a permit for the Stock Program was issued by the California Commissioner of Corporations. As of March 16, 1994, that the permit has been issued. the Company has notified employees who submitted timely, completed QAD Inc. Stock Initial Offering Commitment forms to remit the necessary funds in payment for the shares in their Initial Commitment. Purchases may be made in cash, or through a bank loan for no more than 70% of the required funds.

5.2 Regular Stock Program

The Regular Program took effect after on March 16, 1994, after the receipt of the permit for the Stock Program from the California Commissioner of Corporations, and receipt of all funds for the Initial Offering.

5.2.1 Stock Acquisition

There are three ways that an employee can receive shares of the Company's Class A Common Stock through the Stock Program. They are through:

Payroll Deduction purchases

Direct Purchases at each quarterly internal Stock Trade Date

Stock Awards

The Company follows the policy of being employee owned. As a result there

has never been a general public market for any of the Company's securities and there can be no assurances that such a public market will ever develop. In order to provide liquidity for its shareholders, however, the Company will maintain a limited secondary market. The limited market will permit existing shareholders to sell shares of Class A Common Stock on four (4) predetermined Trade Dates each year. Such sales or purchases will be made at the prevailing Formula Price.

The Company or its designee will hold on behalf of all participants in the Stock Program all stock certificates for shares purchased or awarded under the Stock Program. The Company will maintain a record for each participant in the Stock Program showing the number of shares owned by such participant and held in his or her account. After each Trade Date, the Company will issue a Statement to each participant, detailing the transactions consummated, and the number of shares held by the participant as of the end of the previous Trade Date. The Statement will ascribe a value to the holdings based on the Formula Price used on the previous Trade Date.

5.2.1.1 Payroll Deduction Purchases

An employee may purchase shares of the Company's Class A Common Stock by making regular payroll deductions (the "Payroll Deduction Purchases"). The employee decides what percentage of his or her gross cash compensation, (minus living expenses) (up to the maximum allowed by the Stock Operations Team for the year) that he or she wants withheld from his or her after-tax pay to purchase stock. This amount will then be used to purchase stock on the next Trade Date at a Purchase Discount of 5% below the Formula Price effective on that date. This purchase will be made in minimum blocks of 25 shares. Excess funds remaining will be applied to stock to be purchased at the next quarterly Trade Date.

The maximum percentage of an employee's gross cash compensation, (minus living expenses) that may be withheld during each pay period will be established at the beginning of each Plan Year by the Stock Operations Team. This will be based on the amount of stock released for sale each year by the Company's Board of Directors. The maximum amount which may be withheld from an employee's gross cash compensation, during any pay period for the calender year 1994 is 8%.

Employee's must complete an enrollment form available from ODHR in Carpinteria to begin payroll deductions. The sooner this is received, the sooner funds will be accrued for the next Trade Date. The employee may adjust this amount during the Plan Year.

5.2.1.2 Direct Purchase

To purchase shares of the Company's Class A Common Stock directly, or to purchase additional stock beyond the allotment percentage for Payroll Deduction Purchases, an employee must complete a QAD Inc. Stock Transaction Request (a "Request") form (form stock03), available from ODHR. The employee presents this Request to his or her manager for approval. The employee's manager will submit all approved Requests, with any required supporting documentation substantiating the Request to the Stock Operations Team. This final submission must occur after the Formula Price is announced, and at least 15 days before the Trade Date.

The Stock Operations Team will meet and consider all Requests collectively. Each Request will be approved in whole or in part, or denied based on the amount of outstanding stock available for purchase and the Stock Operations Team's determination of the employee's past and potential future contributions to the Company, evidenced, in part by the supporting documentation from the employee's manager.

If the collective Stock Transaction Requests and Stock Award Requests (as defined in Section 5.2.1.3) exceed the outstanding stock available, the Stock Operations Team will prorate all approved Requests according to the priorities as defined by the Stock Allocation Hierarchy (Section 5.2.1.4). The Stock Operations Team will issue a stock offer for the approved amount to each employee (a "Stock Offer").

At the completion of this process, the employee must submit payment before the Trade Date for the amount of the Stock Offer. The employee will become the registered owner of the appropriate number of shares of the Company's Class A Common Stock on the Trade Date.

5.2.1.3 Stock Awards

Awards of the Company's Class A Common Stock may be made to an employee at any time at the discretion of the employee's manager ("Management Stock Awards"). The manager completes a QAD Inc. Stock Award Request form (form stock04) and submits it, along with supporting documentation substantiating the award, to the Stock Operations Team for consideration. The Stock Operations Team will evaluate the Stock Award Requests in conjunction with the Transaction Requests (as described in Section 5.2.1.2) for the next Trade Date. The amount of stock approved by the Stock Operations Team will be awarded to the employee on the next Trade Date.

Stock awards may be used by managers as part of the incentive portion of an employee's yearly compensation plan (for those on that type of compensation plan). The terms and conditions of these awards are at the discretion of each manager, but must be approved in advance by the Stock Operations Team. Each manager supervising these compensation plans will have a yearly allocation of committed stock from the Stock Operations Team which may be used throughout the year to develop individual compensation plans.

In addition, the Stock Operations Team may make stock awards to eligible employees in its discretion ("Discretionary Stock Awards").

Each award will be subject to an approved vesting schedule. The award may vest immediately, or progressively over a defined performance period, but no longer than five years. Tax will be withheld from the employee's salary whenever any of these shares vest. The amount withheld will be based on the current Formula Price, multiplied by the number of shares vested. See the Tax Consequences section, below (Section 5.2.2.4). Only those shares for which the employee is the beneficial owner (vested) may be sold on the next Trade Date

5.2.1.4 Stock Allocation Hierarchy

For each Trade Date during a given fiscal year, the amount of stock available for purchase will be based on the amount being sold by employees of the Company plus an amount of the Class A Common Stock authorized for issuance pursuant to the Stock Program. The amount of the Class A Common Stock authorized for issuance pursuant to the Stock Program and available for purchase on a particular Trade Date will be the excess of the amount allocated by the Company's Board of Directors at the beginning of the fiscal year in which the Trade Date falls over the cumulative amount sold during all previous Trade Dates falling in the same fiscal year.

The Stock Operations Team allocates the amount of stock available according to the following priorities (the "Stock Allocation Hierarchy"):

Payroll Deduction Purchase commitments

Allocated Management Stock Award pools

Stock Operations Team Discretionary Stock Awards

Stock Offers

Each category, from the top, will be fulfilled 100% before moving to the next category. If any category receives less than 100% fulfillment, the remaining categories will receive no allocation.

If there is an insufficient amount to cover all of any category, the remaining amount available will be prorated equally over each employee in that category.

5.2.2 Stock Liquidation

There are three ways that an employee may liquidate stock. They are:

Direct Sale

Termination of employment

Sale To Non-Employees

5.2.2.1 Direct Sale

An employee desiring to sell shares in which the employee is completely vested or has beneficial ownership, must complete and return a QAD Inc. Stock Transaction Request form (form stock03) to the Stock Operations Team. This submission must occur after the Formula Price is announced, but at least 15 days before the established Trade Date. The Stock Operations Team will accumulate all sell orders and match the total against the total of the approved buy orders. If the total buy orders exceeds the sell orders, the employee will be notified of the sale of 100% of his sell order. If the total sell orders exceeds the total buy orders, the Stock Operations Team will determine if the Company elects to buy all the excess sell amount in addition to the amount of total buy orders.

In the event that the Company does not elect to purchase 100% of the excess, there will be two levels of resolution.

All sell orders of 500 shares or less will be 100% executed

Any deficiencies beyond 500 shares will be prorated equally over all the remaining sell orders. The Stock Operations Team will notify each requesting employee of the percentage of their order that will be fulfilled.

A fee of 2% of the proceeds will be charged for each sale transaction. This fee will cover the costs associated with the stock sale.

The Company will remit the proceeds of the stock sale (minus the 2% selling fee) to the seller within 30 days of the Trade Date.

5.2.2.2 Termination

The Company's Restated Articles of Incorporation contain provisions which grant the Company the right to repurchase shares of the Company's Class A Common Stock in the event that the employment or affiliation of a holder thereof with the Company is terminated. When an employee terminates his or her employment with the Company, the Company has the right to buy back the stock that the employee has purchased and/or been awarded while an employee. The Company will notify the employee within 90 days of termination regarding the exercise of this right. If this right is exercised by the Company, the Company will purchase the stock at the higher of the Purchase Price paid for the shares by the employee, or the Formula Price on the date of such termination or on the date such shares are distributed, if shares are distributed after the date of termination. An appropriate adjustment shall be made to the repurchase price to account for any stock splits or combinations, as determined by the Board of Directors. An ex-employee, as long as he or she is a shareholder, will continue to have an opportunity to dispose of his or her holdings on future Trade Dates. An authorized Leave Of Absence will not constitute a Termination. If, however, the Leave of Absence terminates without the

employee returning to work, this will constitute a Termination for purposes of this Stock Program on the scheduled termination date.

In the event that a terminating employee has sold stock to a Qualified Non-Employee (see 3.2.2.3 below), the Company retains a 90 day option, from the employee's termination date, to buy back the stock at the same Formula Price as the employee would be entitled to receive.

In addition, the Company's Restated Articles contain provisions which

grant the Company the right of first refusal with respect to any proposed sale of the Company's Class A Common Stock by a holder of such stock other than through the limited market (the "Right of First Refusal"). Each holder of the Company's Class A Common Stock must give the Company written notice of the proposed sale along with a signed statement from the proposed purchaser identifying the purchaser and setting for the proposed terms of the purchase. The Company has the right to purchase such shares within 14 days of receipt of the required notices. The Company retains this Right of First Refusal regardless of whether or not it exercises its right of repurchase upon termination of employment.

5.2.2.3 Sale To Non-Employees

Subject to the restrictions described in Section 3.0 above, an employee may choose to sell portions of their holdings to parties outside the employee base of the Company. These Non-Employees must be qualified by the Stock Operations Team according to published Guidelines, prior to the sale. The sale may only occur if the Company does not exercise it's Right of First Refusal on the purchase of the Stock at the current Formula Price. The Company retains the Right of First Refusal on all future transactions of any stock sold to Qualified Non-Employees.

5.2.2.4 Other Transfers

Except for the sales in the limited market maintained by QAD, or as specified in paragraphs 5.2.2.2, and 5.2.2.3 above, no holder of shares of Class A Common Stock may sell, assign, pledge, transfer, or otherwise dispose of, or encumber any shares of Stock without the prior written approval of the Corporation. Any attempt to dispose of, or encumber such shares other than through the approved methods, shall be null and void.

5.2.2.5 U.S. Federal Income Tax Consequences

The following tax consequences exist for shareholders who are legally subject to the U.S. Internal Revenue Service regulations. Shareholders subject to the tax regulations of other Principalities, must adhere to the tax regulations of their Principality. These are available from ODHR under separate cover.

Employees who purchase stock through Payroll Deduction Purchases under the Purchase Plan will receive such shares at a five percent (5%) discount below the Formula Price. Such employees will recognize ordinary income in the year in which they purchase the shares in the amount of the difference between the price paid for the shares and the shares' fair market value.

(QAD believes that the Formula Price, established in conjunction with a recognized independent appraisal firm, to be representative of the Company's fair market value). The Company is entitled to a deduction at the time the employee recognizes taxable income in an amount equal to the amount recognized by the employee as taxable income.

Awards under the Award Plan of shares of Class A Common Stock that are not subject to forfeiture are taxable as ordinary income to the recipient in the year received. Awards of Class A Common Stock that are subject to forfeiture (i.e., subject to a vesting schedule) will not be recognized for federal income tax purposes by recipients at the times such awards are made, unless the recipient makes an election as discussed below, to recognize the award as income at the time received.

The recipient of shares of Class A Common Stock that are subject to forfeiture will recognize income at the time all or a portion of the award becomes nonforfeitable (i.e., vested) to the extent of the value of such vested shares. A recipient of an award of shares of Class A Common Stock may, however, elect to recognize, for federal income tax purposes, the value of an award of shares of Class A Common Stock on the date such shares are received, even though the shares remain subject to forfeiture at that time. The election must be made within thirty (30) days after the award of shares.

If such an election is made, future appreciation in the value of the

shares of Class A Common Stock will not be treated as taxable compensation. However, if the shares are forfeited after the taxable year in which such election is made, no deduction will be allowed to the recipient. The Company is entitled to a deduction at the time the recipient recognizes the award (or a portion thereof) as taxable income in an amount equal to the amount recognized by the recipient as taxable income.

The foregoing discussion is intended only as a summary of certain federal income tax consequences and does not purport to be a complete discussion of all the tax consequences of participation in the Purchase Plan and Award Plan. Accordingly, recipients of awards under the Purchase Plan and Award Plan should consult their own tax advisers with respect to all federal, state and local tax effects of participation in the Award Plan.

5.2.2.6 Readjustments To Capitalization

Each outstanding share shall be proportionately adjusted for any increase or decrease in the number of shares issued resulting from the payment of a Series A Common Stock dividend, a stock split, a reverse stock split, or any other event which results in an increase or decrease in the number of issued shares effected without receipt of consideration by the Corporation, and the purchase price shall be proportionately increased or decreased.

6.0 DEFINITION OF TERMS

6.1 Formula Price

Since QAD stock is not publicly traded, the fair market value for QAD stock trades is determined quarterly by a formula based upon the preceding quarter's financial results. This price is the Formula Price which is used for the various transactions in the QAD Stock Program. This formula is checked professionally by a nationally recognized independent appraisal firm against actual market conditions at least once per year.

To aid in selecting a Market Factor (MF) that results in fair market value for the stock price, the Board of Directors and the Stock Operations Team obtain the services of an independent appraisal firm; and the Board determines the Market Factor in conjunction with the appraisal. At least once per year, the appraiser compares various financial and performance parameters of QAD to those of similar, but publicly traded companies. This comparative evaluation process and other factors help the appraisal firm determine if the Formula Price appears to reflect the fair market value of QAD stock

Following is the formula established as of 12/1/93:

(NetWorth * MF) + ([([EBDIT:LE * W + EBDIT:NE * (1-W)] * 7 * MF) + NonOpAssets - IntBearDebt] * MinorityFactor)

Shares

where:

NetWorth = Net Worth as of the last quarter
MF = Market Factor determined by the Board of Directors
EBDIT:LE = Actual Earnings Before Depreciation, Interest and Taxes in the last 4 quarters
EBDIT:NE = Projected Earnings Before Depreciation, Interest and Taxes in the next 4 quarters
W = Weight of EBDIT for the most recent 4 quarters
NonOpAssets = Non-Operating Assets as of the last quarter
IntBearDebt = Interest Bearing Debt as of the last quarter
MinorityFactor = Minority Factor
Shares = Fully Diluted Shares

The Minority Factor is used to adjust the share price to reflect the fact

that the QAD shares being traded are non-controlling and can only be traded in a restricted market.

6.2 Trade Date

The Trade Date is a date on which stock may be traded. Stock is traded at the Formula Price. There is one Trade Date per quarter. It follows the publishing of the quarterly financial results and the subsequent determination of the Formula Price for that quarter.

6.3 Purchase Discount

The discount from Formula Price at which participants in the Stock

Purchase Plan may purchase stock on each Trade Date. It is currently 5%.

6.4 Minimum Purchase Amount

The minimum number of shares that may be purchased under the Direct Purchase option (see Section 5.2.1.2), or which may be awarded in a Stock Award (see Section 5.2.1.3) is 100 shares. The minimum number of shares that may be purchased under the Payroll Purchase Plan (see Section 5.2.1.1) is 25 shares.

6.5 Minimum Block Amount

The minimum block size for transactions under the Direct Purchase option is 100 shares. The minimum block size for transactions under the Payroll Purchase Plan is 25 shares. All purchase or sale transactions must adhere to this criterion to be considered valid.

7.0 INFORMATION TO PROGRAM PARTICIPANTS

Each employee participating in the Stock Program shall be provided with such information regarding the Corporation as the Stock Operations Team from time-to-time deems necessary or appropriate; provided however, that each participant shall at all times be provided with such information as is required to be provided from time-to-time pursuant to applicable regulatory requirements, including, but not limited to, any applicable requirements of the Securities and Exchange Commission, the California Department of Corporations and other state securities agencies.

THE qad.inc 1994 STOCK
PURCHASE PLAN

Rev 2.0

April 13, 1994

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1.0 PURPOSE

The purpose of the qad.inc 1994 Stock Purchase Plan (the "Plan") is to provide an opportunity for Employees of qad.inc (the "Corporation") and its designated Affiliates, to purchase Common Stock of the Corporation and thereby to have an additional incentive to contribute to the prosperity of the Corporation. This Plan is not designed to qualify as an Employee Stock Purchase Plan under section 423 of the Internal Revenue Code.

2.0 DEFINITIONS

(a) "Affiliate" shall mean any corporate affiliate of the Corporation which the Board has designated as eligible to participate in the Plan.

(b) "Board" shall mean the Board of Directors of the Corporation.

(c) "Common Stock" shall mean the Class A Common Stock of the Corporation, or any stock into which such Common Stock may be converted.

(d) "Compensation" shall mean the gross cash compensation (minus living allowances) received by a Participant during a Purchase Period.

(e) "Corporation" shall mean qad.inc, a California corporation.

(f) "Employee" shall mean an individual employed by the Corporation or an Affiliate.

(g) "Entry Date" shall mean the first business day following a Trade Date.

(h) "Formula Price" shall mean the fair market value of one share of the Common Stock, as determined in good faith by the Corporation. Such determination shall be conclusive and binding on all persons.

(i) "Minimum Block Transaction" shall mean 100 shares of Common Stock for Direct purchases, and 25 shares for Payroll Deduction purchases.

(j) "Minimum Purchase Amount" shall mean 100 shares of Common Stock for Direct purchases, and 25 shares for Payroll Deduction purchases.

(k) "Participant" shall mean an eligible Employee who has enrolled in the Plan as described in Section 5.

(l) "Plan" shall mean this stock purchase plan.

(m) "Plan Year" shall mean the fiscal year of the Corporation.

(n) "Purchase Period" shall mean the period beginning on an Entry Date and ending on the next following Trade Date during which payroll deductions are accumulated under the Plan. The first Purchase Period shall commence on January 1, 1994.

(o) "Payroll Deduction Limitation" shall mean the maximum percentage of Compensation that a Participant may withhold under the Plan at any given time. This is by the Board each Plan Year. An employee may elect any whole percentage between 1% and the maximum each Pay Period.

(p) "Stock Operations Team" shall mean the committee appointed by the Board in accordance with Section 11 of the Plan.

(q) "Trade Date" shall mean the date on which Common Stock is traded on the Corporation's internal market.

(r) "Valuation Date" shall mean the date during a Purchase Period on which the Formula Price of Common Stock is announced by the Corporation for purposes of its internal market.

3.0 ELIGIBILITY

All full-time and part-time employees of the Corporation and its Affiliates shall be eligible to participate in the Plan.

4.0 STOCK OFFERINGS

4.1 Stock Availability

Each Plan Year, the Board will declare the amount available for purchase in excess of the outstanding shares. This number will be used by the Stock Operations Team to limit the number of shares that employees may purchase under both the payroll deduction and direct purchase methods.

4.2 Operation of the Plan

Subject to certain limitations, the Plan allows eligible Employees to purchase shares, in Minimum Block Transaction lots, of Common Stock on the Trade Date, using one or both of two methods: (1) direct purchases by the payment of the purchase price in cash, at 100% of the Formula Price, and (2) purchases using accumulated payroll deductions that the Participant has elected to have withheld under the Plan at 95% of the Formula Price.

4.3 Payroll Deduction Limitations

All Participants in the payroll deduction method are subject to an overriding percentage-of-Compensation limitation each Plan Year, as specified by the Board. This limits the maximum withholding that a Participant can elect during any Pay Period of the Plan Year.

4.4 Direct Purchase Limitations

Direct purchase limits for each Participant for each Trade Date are determined by the Stock Operations Team in its sole discretion, based on stock availability and supervisor-approved Employee applications.

4.5 Shares Subject to the Plan

The aggregate number of shares which may be issued pursuant to this Plan shall not exceed two million four hundred thousand (2,400,000) less that number of shares issued pursuant to the qad.inc 1994 Stock Award Plan.

5.0 PARTICIPATION

5.1 Payroll Deductions

An Employee who is eligible to participate in the Plan in accordance with Section 3 may become a Participant in the payroll deduction portion of the

Plan by filing, in the manner prescribed by the Stock Operation Team, at least fifteen (15) days prior to an Entry Date, a completed Plan enrollment form and payroll deduction authorization. An eligible Employee may authorize payroll deductions at the rate of any whole percentage of the Employee's Compensation. The payroll deductions under this Plan shall not exceed the percentage of the Employee's Compensation established annually by the Directors. Payroll deductions made in accordance with the authorization shall commence on the date when the authorization becomes effective and shall remain in effect until changed or withdrawn by the employee, or until the end of the Plan Year. All payroll deductions may be held by the Corporation and commingled with its other corporate funds. A separate bookkeeping account for each Participant shall be maintained by the Corporation under the Plan and the amount of each Participant's payroll deductions shall be credited to such account. Participants may, subject to the annual percentage limit, increase or decrease the amount of their payroll deduction at any time by delivering a new payroll deduction authorization form in the manner prescribed by the Stock Operation Team.

5.2 Stock Purchase Request

Separately, an Employee who is eligible to participate in the Plan in accordance with Section 3 may become a Participant by filing, in a manner prescribed by the Stock Operations Team, a completed stock purchase request form with the Employee's supervisor. Upon recommendation by the supervisor, this request will be forwarded to the Stock Operations Team. The Stock Operations Team will authorize an actual purchase allotment for each Participant based on consideration of the collective purchase requests for the applicable Trade Date. Upon notification of the authorized allotment, the Employee will forward

payment for the full purchase price thereof. All stock purchase requests from employees who have not previously purchased Common Stock pursuant to this Section 5.2, must request the purchase of at least the Minimum Purchase Amount to qualify as a valid stock purchase request. Purchase requests must request purchase of the Minimum Block Transaction amount or a multiple thereof to be considered valid. Such purchase requests must be filed after the Valuation Date for a particular Purchase Period but at least fifteen (15) days before the Trade Date thereof. The Stock Operations Team may, before December 31, 1993, provide eligible Employees with an initial opportunity to purchase Common Stock without the need for supervisor approval.

5.3 Withdrawal

A Participant may discontinue payroll deductions under the Plan at any time, in which event the amount credited to the Participant's individual account shall be paid to the Participant without interest, or held until the next Trade Date, at the employee's request. If any Participant terminates employment with the Corporation or any Affiliate for any reason (including death) prior to the expiration of a Purchase Period, the Participant's participation in the Plan shall terminate and all accumulated payroll deductions credited to the Participant's account shall be paid to the Participant or the Participant's estate without interest.

6.0 PURCHASE OF STOCK

6.1 Payroll Deduction Method

On each Trade Date, all accumulated payroll deductions credited to a Participant's account, shall be applied to the purchase of that number of Minimum Block Transaction lots which such accumulated payroll deductions shall purchase at 95 percent (95%) of the Formula Price then in effect.

6.2 Stock Purchase Request Method

On each Trade Date, all payments submitted by Participants along with approved stock purchase request forms, will be applied to the purchase of the amount of Common Stock requested on such forms, or lesser amount as determined by the Stock Operations Team in accordance with Section 4.4, at the Formula Price then in effect.

7.0 PAYMENT, STOCK CERTIFICATES AND RESTRICTIONS

7.1 Payment, Retention of Certificates

Each stock purchase request form and payroll deduction authorization form shall designate the Corporation or its designee to hold on behalf of the Participants all stock certificates for shares of Common Stock purchased under the Plan. All such stock certificates representing shares purchased for Participants under the Plan shall be held by the Corporation or its designee. The Corporation will maintain a record for each Participant showing the number of shares owned by the Participant and held on the Participant's account. The Corporation also shall maintain records of the balance of any amount of

payroll deductions credited to the Participant's account not used for the purchase. To the extent the unused cash balance represents a fraction of the Minimum Block Transaction, the Participant may elect to have such unused cash balance credited to the Participant's account for the next Purchase Period if the Participant is also a Participant in the Plan at that time. The Corporation shall retain the amount of payroll deductions used to purchase Common Stock as full payment for the Common Stock and the Common Stock shall then be fully paid and non-assessable. No Participant shall have any voting, dividend, or other stockholder rights with respect to shares subject to any right granted under the Plan until the shares have been purchased in accordance with the terms of this Plan.

7.2 Statements of Share Ownership

The Corporation will issue statements to each Participant on a regular basis, at least annually, listing the number of shares of Common Stock owned by such individual.

7.3 Right of Repurchase

The Company's Restated Articles of Incorporation contain provisions which grant the Company the right to repurchase shares of the Company's Class A Common Stock in the event that the employment or affiliation of a holder thereof with the Company is terminated. When an employee terminates his or her employment with the Company, the Company has the right to buy back all of the stock that the employee has purchased and/or been awarded while an employee. The Company will notify the employee within 90 days of termination regarding the exercise of this right. If this right is exercised by the Company, the Company will purchase the stock at the higher of the original purchase price paid for such shares under the Plan (with an appropriate adjustment to account for any changes in capitalization, as determined by the Board) or the Formula Price on the date of such termination, or on the date such shares are distributed if shares are distributed after the date of termination. An ex-employee, as long as he or she is a shareholder, will continue to have an opportunity to dispose of his or her holdings on future Trade Dates. An authorized leave of absence will not constitute a termination. If, however, the leave of absence terminates without the employee returning to work, this will constitute a termination for purposes of this Stock Purchase Plan.

In the event that a terminating employee has sold stock to a Qualified Non-Employee (as that term is defined in the Stock Program Operations Guidelines and Procedures), the Company retains a 90-day option, from the employee's termination date, to buy back the stock at the same Formula Price as the employee would be entitled to receive.

In addition, the Company's Restated Articles contain provisions which grant the Company the right of first refusal with respect to any proposed sale of the Company's Class A Common Stock by a holder of such stock other than through the limited market (the "Right of First Refusal"). Each holder of the Company's Class A Common Stock must give the Company written notice of the proposed sale along with a signed statement from the proposed purchaser identifying the purchaser and setting for the proposed terms of the purchase. The Company has the right to purchase such shares within 14 days of receipt of the required notices. The Company retains this Right of First Refusal regardless of whether or not it exercises its right of repurchase upon termination of employment.

8.0 MERGER OR LIQUIDATION

In the event of a dissolution or liquidation of the Corporation, or a merger or consolidation in which the Corporation is not the surviving corporation, the Plan shall terminate on the date of approval of the dissolution, liquidation, merger, or consolidation by the Corporation's shareholders. Upon termination, all outstanding requests for stock purchases under the Plan shall automatically terminate and amounts of payroll deductions and other payments shall be refunded without interest to the Participants.

9.0 TRANSFERABILITY

Rights to purchase Common Stock granted to Participants hereunder may not be voluntarily or involuntarily assigned, transferred, pledged, or otherwise disposed of in any way, and any attempted assignment, transfer, pledge, or other disposition shall be null and void and without effect. If a Participant in any manner attempts to transfer, assign or otherwise encumber his or her rights or interest under the Plan, such act shall be treated as automatic withdrawal under Section 5.3.

10.0 AMENDMENT OR TERMINATION OF THE PLAN

The Board may, at any time and from time to time, terminate or suspend the Plan, or revise or amend it in any respect whatsoever.

11.0 ADMINISTRATION

The Plan shall be administered by a Stock Operations Team of at least three members who shall be appointed by the Board. The Stock Operations Team shall have full power and authority to promulgate any rules and regulations which it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all action in connection with administration of the Plan as it deems necessary or advisable. Decisions of the Stock Operation Team shall be made by a majority of its members and shall be final and binding upon all employees of the Corporation and its Affiliates. Any decision reduced to writing and signed by a majority of the members of the Stock Operation Team shall be fully effective as if it had been made at a meeting of the Stock Operation Team duly held. The Corporation shall pay all expenses incurred in the administration of the Plan. No Stock Operation Team member shall be liable for any action or determination made in good faith with respect to the Plan or any right awarded thereunder.

Notwithstanding the foregoing provisions, all purchases of Common Stock made by members of the Stock Operations Team and members of the Board's Executive Committee shall be administered and subject to approval by a majority vote of the Board. With respect to such purchases, references in this Plan to the "Stock Operations Team" shall be taken as meaning the "Board" where the context permits.

12.0 SECURITIES LAWS REQUIREMENT

The Corporation shall not be under any obligation to issue Common Stock under this Plan unless and until the Corporation has determined that: (i) it and the Participant have taken all actions required to register the Common Stock under the Securities Act of 1933, or to perfect an exemption from the registration requirements thereof; (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and (iii) all other applicable provisions of state and fede ral law have been satisfied.

13.0 GOVERNMENTAL REGULATIONS

This Plan and the Corporation's obligation to sell shares of its stock under the Plan shall be subject to the approval of any governmental authority required in connection with the Plan or the authorization, issuance, sale, or delivery of stock hereunder.

14.0 MISCELLANEOUS

14.1 Continuation of Employment

Nothing contained in the Plan, or in the purchase of Common Stock under the Plan. shall confer upon any Employee any right to continue in the employ of the Corporation.

14.2 No Vested Interest in the Plan

No employee of the Corporation or an Affiliate, nor any person claiming under or through an employee, nor any other person, shall have any right or interest in the Plan or in Common Stock purchased hereunder, unless and until all the terms and conditions of the Plan, any rules and regulations of the Stock Operations Team thereunder and of any instrument executed pursuant thereto affecting such purchase, shall be fully complied with as specifically provided in the Plan and the rules and regulations of the St ock Operations Team thereunder. No rights under the Plan, contingent or otherwise, shall be assignable or subject to any encumbrance, pledge or charge of any nature, except as may be specifically authorized by the Stock Operations Team.

14.3 Non-Transferability

No interest in or payment under the Plan shall be transferable by the employee other than by will or by the laws of descent and distribution.

14.4 Tax Withholding

The Corporation shall have the right to deduct from any Common Stock purchased under the Plan or from any other compensation payable to the employee purchasing such Common Stock, any sums required by federal, state or other law to be withheld with respect to such purchase. There is no

obligation under the Plan that any employee or other person be advised of the existence of any such tax or the amount which the Corporation will be so required to withhold.

14.5 Readjustments to Capitalization

Each outstanding share shall be proportionately adjusted for any increase or decrease in the number of shares issued resulting from the payment of a Series A Common Stock dividend, a stock split, a reverse stock split or any other event which results in an increase or decrease in the number of issued shares effected without receipt of consideration by the Corporation, and the purchase price shall be proportionately be increased or decreased.

14.6 Information to Program Participants

Each employee participating in the Stock Program shall be provided with such information regarding the Corporation as the Stock Operations Team from time to time deems necessary or appropriate; provided, however, that each participant shall at all times be provided with such information as is required to be provided from time to time pursuant to applicable regulatory requirements, including, but not limited to, any applicable requirements of the Securities and Exchange Commission, the California Department of Corporations and other state securities agencies.

14.7 Term of the Plan

The Plan shall be effective as of November 30, 1993, and shall continue in effect for a period of ten (10) years.

14.8 Governing Law

The Plan, and any purchases made under the Plan, shall be governed by, and be construed in accordance with, the laws of the State of California.

AWARD PLAN

Rev. 2.0

April 13, 1994

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1.0 PURPOSE.

The purpose of the qad.inc 1994 Stock Award Plan (the "Plan") is to further the success of the Corporation by providing special financial rewards in addition to regular salaries to those employees of the Corporation and its Affiliates most responsible for the continued success of the Corporation.

2.0 DEFINITIONS.

(a) "Affiliate" shall mean any corporate affiliate of the Corporation which the Board has designated as eligible to participate in the Plan.

(b) "Board" shall mean the Board of Directors of the Corporation.

(c) "Common Stock" shall mean the Common Stock of the Corporation, or any stock into which such Common Stock may be converted.

(d) "Corporation" shall mean qad.inc, a California corporation.

(e) "Employee" shall mean an individual employed by the Corporation or an Affiliate.

(f) "Formula Price" shall mean the fair market value of one share of the Common Stock, as determined in good faith by the Corporation. Such determination shall be conclusive and binding on all persons.

(g) "Plan" shall mean this stock award plan.

(h) "Stock Offer" shall mean an approved request for purchasing a certain number of shares for a specific trade date.

(i) "Stock Operations Team" shall mean the committee appointed by the Board in accordance with Section 6, below, to administer the Plan.

(j) "Trade Date" shall mean the date on which Common Stock is traded on the Corporations internal market.

(k) "Valuation Date" shall mean the date during a purchase period on which the Formula Price of Common Stock is announced by the Corporation for purposes of its internal markets.

3.0 ELIGIBILITY

All full-time and part-time employees of the Corporation and its Affiliates shall be eligible to receive awards of Common Stock pursuant to the terms of the Plan.

4.0 STOCK AWARDS

4.1 Award Determinations

Awards under the Plan will be made to eligible employees in such amounts and at such times as the Stock Operations Team shall determine at its sole discretion. The Stock Operations Team will consider but shall not be bound by the written recommendations of managers within the Corporation and its Affiliates regarding the award of awards to eligible employees whom the managers determine to be deserving of awards. Such written recommendations shall include an explanation of the facts justifying the award and the recommended amount of such award.

4.2 Time and Form of Payment

Each award made under the Plan shall be payable in shares of Common Stock promptly following the decision by the Stock Operations Team to make payment of the award. Stock awards may vest immediately or may vest over a term (not-to-exceed five (5) years) defined by the employee's manager and approved by the Stock Operations Team.

4.3 Shares Subject to the Plan

The aggregate number of shares which may be issued pursuant to this Plan shall not exceed two million four hundred thousand (2,400,000) less that number of shares issued pursuant to the qad.inc 1994 Stock Purchase Plan.

5.0 STOCK CERTIFICATES

5.1 Retention of Certificates

The Corporation or its designee shall hold on behalf of the employees who are awarded Common Stock under the Plan all stock certificates for such shares of Common Stock. The Corporation will maintain a record for each such employee showing the number of shares owned by the employee and held in the employee's account.

5.2 Statements of Share Ownership

The Corporation will issue statements on a regular basis, at least annually, to each employee who has been awarded Common Stock under the Plan listing the number of shares of Common Stock owned by such individual.

6.0 ADMINISTRATION

The Plan shall be administered by a Stock Operations Team of at least three members who shall be appointed by the Board. The Stock Operations Team shall have full power and authority to promulgate

any rules and regulations which it deems necessary for the proper administration of the Plan, to interpret the provisions and supervise the administration of the Plan, and to take all action in connection with administration of the Plan as it deems necessary or advisable. Decisions of the Stock Operations Team shall be made by a majority of its members and shall be final and binding upon all employees of the Corporation and its Affiliates. Any decision reduced to writing and signed by a majority of the members of the Stock Operations Team shall be fully effective as if it had been made at a meeting of the Stock Operations Team duly held. The Corporation shall pay all expenses incurred in the administration of the Plan. No Stock Operations Team member shall be liable for any action or determination made in good faith with respect to the Plan or any right awarded thereunder.

7.0 SECURITIES LAWS REQUIREMENT

The Corporation shall not be under any obligation to issue Common Stock under this Plan unless and until the Corporation has determined that: (i) it and the employee receiving such Common Stock have taken all actions required to register the Common Stock under the Securities Act of 1933, or to perfect an exemption from the registration requirements thereof; (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and (iii) all other applicable provisions of state and federal law have been satisfied.

8.0 GOVERNMENTAL REGULATIONS

This Plan and the Corporation's obligation to issue shares of its stock under the Plan shall be subject to the approval of any governmental authority required in connection with the Plan or the authorization, issuance, sale, or delivery of stock hereunder.

9.0 AMENDMENT OR TERMINATION

9.1 Amendment or Termination

The Plan may, at any time or from time to time, be amended, or may, at any time, be terminated by the Board subject only to the provisions of Section 9.2 below.

9.2 Restriction on Amendment or Termination

No amendment or termination of the Plan shall, without the employee's consent, affect any award theretofore made to such employee under the Plan.

10.0 MISCELLANEOUS

10.1 Continuation of Employment

Nothing contained in the Plan, or in the award of any Common Stock pursuant to the Plan, shall confer upon any employee any right to continue in the employ of the Corporation.

10.2 No Vested Interest in the Plan

No employee of the Corporation, nor any person claiming under or through an employee, nor any other person, shall have any right or interest in the Plan or its continuance, or in or to the payment of any award under the Plan, whether such award be vested, contingent or otherwise, unless and until all the terms and conditions of the Plan, any rules and regulations of the Stock Operations Team thereunder and of any instrument executed pursuant thereto affecting such award and its payment, shall be fully compl ied with as specifically provided in the Plan and the rules and regulations of the Stock Operations Team thereunder. No rights under the Plan, contingent or otherwise, shall be assignable or subject to any encumbrance, pledge or charge of any nature, except as may be specifically authorized by the Stock Operations Team.

10.3 Non-Transferability

No interest in or payment under the Plan shall be transferable by the employee other than by will or by the laws of descent and distribution.

10.4 Tax Withholding

The Corporation shall have the right to deduct from any payment of awards under the Plan or from any other compensation payable to the employee receiving such award, any sums required by federal, state or other law to be withheld with respect to such award. There is no obligation under the Plan that any employee or other person be advised of the existence of any such tax or the amount which the Corporation will be so required to withhold.

10.5 Right of Repurchase

The Company's Restated Articles of Incorporation contain provisions which grant the Company the right to repurchase shares of the Company's Class A Common Stock in the event that the employment or affiliation of a holder thereof with the Company is terminated. When an employee terminates his or her employment with the Company, the Company has the right to buy back all of the stock that the employee has purchased and/or been awarded while an employee. The Company will notify the employee within 90 days of termination regarding the exercise of this right. If this right is exercised by the Company, the Company will purchase the stock at the higher of the Formula Price at the time of award of such shares under the Plan (with an appropriate adjustment to account for any changes in capitalization, as determined by the Board) or the Formula Price on the date of such termination, or on the date such shares are distributed if shares are distributed after the date of termination. An ex-employee, as long as he or she is a shareholder, will continue to have an opportunity to dispose of his or her holdings on future

Trade Dates. An authorized leave of absence will not constitute a termination. If, however, the leave of absence terminates without the employee returning to work, this will constitute a termination for purposes of this Stock Award Plan.

In the event that a terminating employee has sold stock to a Qualified Non-Employee (as that term is defined in the Stock Program Operations Guidelines and Procedures), the Company retains a 90-day option, from the employee's termination date, to buy back the stock at the same Formula Price as the employee would be entitled to receive.

In addition, the Company's Restated Articles contain provisions which grant the Company the right of first refusal with respect to any proposed sale of the Company's Class A Common Stock by a holder of such stock other than through the limited market (the "Right of First Refusal"). Each holder of the Company's Class A Common Stock must give the Company written notice of the proposed sale along with a signed statement from the proposed purchaser identifying the purchaser and setting for the proposed terms of the purchase. The Company has the right to purchase such shares within 14 days of receipt of the required notices. The Company retains this Right of First Refusal regardless of whether or not it exercises its right of repurchase upon termination of employment.

10.6 Readjustments to Capitalization

Each outstanding share shall be proportionately adjusted for any increase or decrease in the number of shares issued resulting from the payment of a Series A Common Stock dividend, a stock split, a reverse stock split or any other event which results in an increase or decrease in the number of issued shares effected without receipt of consideration by the Corporation, and the purchase price shall be proportionately increased or decreased.

10.7 Information to Program Participants

Each employee participating in the Stock Program shall be provided with such information regarding the Corporation as the Stock Operations Team from time to time deems necessary or appropriate; provided, however, that each participant shall at all times be provided with such information as is required to be provided from time to time pursuant to applicable regulatory requirements, including, but limited to, any applicable requirements of the Securities and exchange Commission, the California

Department of Corporations and other state securities agencies.

10.8 Term of the Plan

The Plan shall be effective as of November 30, 1993, and shall continue in effect for a period of ten (10) years.

10.9 Governing Law

The Plan, and any awards made under the Plan, shall be governed by, and be construed in accordance with, the laws of the State of California.

QAD INC.
1997 STOCK INCENTIVE PROGRAM

1. PURPOSE. This 1997 Stock Incentive Program (the "PROGRAM") is intended to secure for QAD Inc. (the "COMPANY"), its subsidiaries, and its stockholders the benefits arising from ownership of the Company's common stock (the "COMMON STOCK") by those selected individuals of the Company and its subsidiaries, who will be responsible for the future growth of such corporations. The Program is designed to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries, and to provide individuals with an additional incentive to contribute to the success of the corporations. Nothing contained herein shall be construed to amend or terminate any existing options, whether pursuant to any existing plans or otherwise granted by the Company.

2. ELEMENTS OF THE PROGRAM. In order to maintain flexibility in the award of stock benefits, the Program is composed of seven parts. The first part is the Incentive Stock Option Plan (the "INCENTIVE PLAN") under which are granted incentive stock options (the "INCENTIVE OPTIONS"). The second part is the NonQualified Stock Option Plan (the "NONQUALIFIED PLAN") under which are granted nonqualified stock options (the "NONQUALIFIED OPTIONS"). The third part is the Restricted Share Plan (the "RESTRICTED PLAN") under which are granted restricted shares of Common Stock. The fourth part is the Employee Stock Purchase Plan (the "STOCK PURCHASE PLAN"). The fifth part is the Non-Employee Director Stock Option Plan (the "DIRECTORS PLAN") under which grants of options to purchase shares of Common Stock may be made to non-employee directors of the Company. The sixth part is the Stock Appreciation Rights Plan (the "SAR PLAN") under which SARs (as defined therein) are granted. The seventh part is the Other Stock Rights Plan (the "STOCK RIGHTS PLAN") under which (i) units representing the equivalent of shares of Common Stock (the "PERFORMANCE SHARES") are granted; (ii) payments of compensation in the form of shares of Common Stock (the "STOCK PAYMENTS") are granted; and (iii) rights to receive cash or shares of Common Stock based on the value of dividends paid with respect to a share of Common Stock (the "DIVIDEND EQUIVALENT RIGHTS") are granted. The Incentive Plan, the Nonqualified Plan, the Restricted Plan, the Stock Purchase Plan, the Directors Plan, the SAR Plan and the Stock Rights Plan are included herein as Part I, Part II, Part III, Part IV, Part V, Part VI and Part VII, respectively, and are collectively referred to herein as the "PLANS." The grant of an option, SAR or restricted share or rights to purchase shares under one of the Plans shall not be construed to prohibit the grant of an option, SAR or restricted share or rights to purchase shares under any of the other Plans.

3. APPLICABILITY OF GENERAL PROVISIONS. Unless any Plan specifically indicates to the contrary, all Plans shall be subject to the General Provisions of the QAD Inc. 1997 Stock Incentive Program set forth below.

4. ADMINISTRATION OF THE PLANS. The Plans shall be administered, construed, governed, and amended in accordance with their respective terms.

GENERAL PROVISIONS OF STOCK INCENTIVE PROGRAM

Article 1. ADMINISTRATION. The Program shall be administered by the Company's Board of Directors (the "BOARD"). If an award is to be made to an "Executive Officer" as defined in the Exchange Act as hereinafter defined, it must be approved after the completion of the Company's initial public offering, by the Board or by the Program Administrators, that is composed solely of two or more directors who are "Non-Employee Directors" within the meaning of Rule 16b-3 promulgated pursuant to the Securities Exchange Act of 1934, as amended (the "EXCHANGE ACT"), who will also be "outside directors" for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "CODE"). To the extent permitted under the Exchange Act, the Code or any other applicable law, the Board or the Program Administrators, shall have the authority to delegate any and all power and authority to administer and operate the Program hereunder to such person or persons as the Board or the Program Administrators deems appropriate which if formed may be referred to as the Stock Operations Team or such other title specified by the Board. Subject to the foregoing limitations, as applicable, the Board may from time to time remove members from the

committee, fill all vacancies on the committee, however caused, and may select one of the members of the committee as its Chairman. The members of the Board, the Program Administrators or such other persons appointed to administer the Program, when acting to administer the Program, are herein collectively referred to as the "PROGRAM ADMINISTRATORS."

The Program Administrators shall hold meetings at such times and places as they may determine and as necessary to approve all grants and other transactions under the Program as required under Rule 16b-3(d) of the Exchange Act, shall keep minutes of their meetings, and shall adopt, amend, and revoke such rules and procedures as they may deem proper with respect to the Program. Any action of the Program Administrators shall be taken by majority vote or the unanimous written consent of the Program Administrators.

Article 2. AUTHORITY OF PROGRAM ADMINISTRATORS. Subject to the other provisions of this Program, and with a view to effecting its purpose, the Program Administrators shall have sole authority, in their absolute discretion, (a) to construe and interpret the Program; (b) to define the terms used herein; (c) to determine the individuals to whom options and restricted shares and rights to purchase shares shall be granted under the Program; (d) to determine the time or times at which options and restricted shares or rights to purchase shares shall be granted under the Program; (e) to determine the number of shares subject to each option, restricted share and purchase right, the duration of each option granted under the Program, and the price of any share purchase; (f) to determine all of the other terms and conditions of options and restricted shares and purchase rights granted under the Program; (g) establish the forms to implement the Program; and (h) to make all other determinations necessary or advisable for the administration of the Program and to do everything necessary or appropriate to administer the Program; PROVIDED, HOWEVER, that the Board shall establish the price for all shares issued hereunder. All decisions, determinations, and interpretations made by the Program Administrators shall be binding and conclusive on all participants in the Program (the "PLAN PARTICIPANTS") and on their legal representatives, heirs, and beneficiaries.

Article 3. MAXIMUM NUMBER OF SHARES SUBJECT TO THE PROGRAM. The maximum aggregate number of shares of Common Stock subject to the Plans shall be 2,000,000 shares. The shares of Common Stock to be issued upon exercise of an option, to the extent exercised for shares of Common Stock, issued as restricted shares or issued upon stock purchases may be authorized but unissued shares, shares issued and reacquired by the Company or shares purchased by the Company on the open market. If any of the options granted under the Program expire or terminate for any reason before they have been exercised in full, the unpurchased shares subject to those expired or terminated options shall cease to reduce the

number of shares available for purposes of the Program. No employee may receive more than 200,000 Shares in grants of options or SARs in any calendar year. If the conditions associated with the grant of restricted shares are not achieved within the period specified for satisfaction of the applicable conditions, or if the restricted share grant terminates for any reason before the date on which the conditions must be satisfied, the shares of Common Stock associated with such restricted shares shall cease to reduce the number of shares available for purposes of the Program.

The proceeds received by the Company from the sale of its Common Stock pursuant to the exercise of options, transfer of restricted shares or issuance of stock purchased under the Program, if in the form of cash, shall be added to the Company's general funds and used for general corporate purposes.

Article 4. ELIGIBILITY AND PARTICIPATION. Officers, employees, directors (whether employee directors or non-employee directors), and independent contractors or agents of the Company or its subsidiaries who are responsible for or contribute to the management, growth, or profitability of the business of the Company or its subsidiaries shall be eligible for selection by the Program Administrators to participate in the Program. However, Incentive Options may be granted under the Incentive Plan only to a person who is an employee of the Company or its subsidiaries. An employee may be granted Nonqualified Options under the Program; PROVIDED, HOWEVER, that the grant of Nonqualified Options and Incentive Options to an employee shall be the grant of separate options and each Nonqualified Option and each Incentive Option shall be

specifically designated as such in accordance with applicable provisions of the Treasury Regulations.

The term "subsidiary" as used herein means any company, other than the Company, in an unbroken chain of companies, beginning with the Company if, at the time of any grant hereunder, each of the companies, other than the last company in the unbroken chain, owns stock possessing more than 50% of the total combined voting power of all classes of stock in one of the other companies in such chain.

Article 5. EFFECTIVE DATE AND TERM OF PROGRAM. The Restricted Plan, the Nonqualified Plan, the SAR Plan, the Stock Rights Plan and the Directors Plan shall become effective upon their adoption by the Board of Directors of the Company. The Incentive Plan and the Stock Purchase Plan shall become effective upon their adoption by the Board of Directors of the Company, subject to approval of the Program by a majority of the voting shares of the Company voting in person or by proxy at a meeting of stockholders or by written consent of the stockholders following adoption of the Program by the Board of Directors, which vote shall be taken within 12 months of adoption of the Program by the Company's Board of Directors or by written consent of the stockholders. The Program shall continue in effect for a term of 10 years unless sooner terminated under Article 7 of these General Provisions.

Article 6. ADJUSTMENTS. If the outstanding shares of Common Stock are increased, decreased, changed into, or exchanged for a different number or kind of shares or securities through merger, consolidation, combination, exchange of shares, other reorganization, recapitalization, reclassification, stock dividend, stock split or reverse stock split, an appropriate and proportionate adjustment shall be made in the maximum number and kind of shares as to which options and restricted shares, SAR's, unrestricted and other stock rights may be granted under this Program. A corresponding adjustment changing the number and kind of shares allocated to unexercised options, restricted shares, or portions thereof, which shall have been granted prior to any such change, shall likewise be made. Any such adjustment in outstanding options shall be made without change in the aggregate purchase price applicable to the unexercised portion of the option, but with a corresponding adjustment in the price for each share or other unit of any security covered by the option.

Article 7. TERMINATION AND AMENDMENT OF PROGRAM. The Program shall terminate 10 years from the date the Program is adopted by the Board of Directors, or the date a particular Plan is approved by the stockholders, whichever is earlier, or shall terminate at such earlier time as the Board of Directors may so determine. No options or restricted shares shall be granted and no stock shall be sold and purchased under the Program after that date. Subject to the limitation contained in Article 8 of these General Provisions, the Program Administrators may at any time amend or revise the terms of the Program, including the form and substance of the option, restricted share and stock purchase agreements to be used hereunder; PROVIDED, HOWEVER, that without approval by the stockholders of the Company representing a majority of the voting power (as contained in Article 5 of these General Provisions) no amendment or revision shall (a) increase the maximum aggregate number of shares that may be sold or distributed pursuant to options or restricted shares granted or stock sold and purchased under this Program, except as permitted under Article 6 of these General Provisions; (b) change the minimum purchase price for shares under Section 4 of Plans I and II or the Purchase Price for shares under Plan IV; (c) increase the maximum term established under the Plans for any option or restricted share; (d) permit the granting of an option, restricted share or right to purchase shares to anyone other than as provided in Article 4 of the General Provisions; or (e) change the term of the Program described in Article 5 of these General Provisions.

Article 8. PRIOR RIGHTS AND OBLIGATIONS. No amendment, suspension, or termination of the Program shall, without the consent of the individual who has received an option or restricted share or who has purchased a specified share or shares under Plan IV, impair any of that person's rights or obligations under any option or restricted share granted or shares sold and purchased under the Program prior to that amendment, suspension, or termination.

Article 9. PRIVILEGES OF STOCK OWNERSHIP. Notwithstanding the exercise of any option granted pursuant to the terms of this Program, the

achievement of any conditions specified in any restricted share granted pursuant to the terms of this Program or the election to purchase any shares pursuant to the terms of this Program, no individual shall have any of the rights or privileges of a stockholder of the Company in respect of any shares of stock issuable upon the exercise of his or her option, the satisfaction of his or her restricted share conditions or the sale, purchase and issuance of such purchased shares until certificates representing the shares have been issued and delivered. No shares shall be required to be issued and delivered upon exercise of any option, satisfaction of any conditions with respect to a restricted share or a purchaser under Plan IV unless and until all of the requirements of law and of all regulatory agencies having jurisdiction over the issuance and delivery of the securities shall have been fully complied with.

Article 10. RESERVATION OF SHARES OF COMMON STOCK. The Company, during the term of this Program, will at all times reserve and keep available such number of shares of its Common Stock as shall be sufficient to satisfy the requirements of the Program. In addition, the Company will from time to time, as is necessary to accomplish the purposes of this Program, seek or obtain from any regulatory agency having jurisdiction any requisite authority in order to issue and sell shares of Common Stock hereunder. The inability of the Company to obtain from any regulatory agency having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of its stock hereunder shall relieve the Company of any liability in respect of the nonissuance or sale of the stock as to which the requisite authority shall not have been obtained.

Article 11. TAX WITHHOLDING. The exercise of any option or restricted share granted or the sale and issuance of any shares to be purchased under this Program are subject to the condition that if at any time the Company shall determine, in its discretion, that the satisfaction of withholding tax or other withholding liabilities under any state or federal law is necessary or desirable as a condition of, or in connection with, such exercise or the delivery or purchase of shares pursuant thereto, then in such event, the

exercise of the option or restricted share or the sale and issuance of any shares to be purchased shall not be effective unless such withholding shall have been effected or obtained in a manner acceptable to the Company. At the Company's sole and complete discretion, the Company may, from time to time, accept shares of the Company's stock subject to one of the Plans as the source of payment for such liabilities.

Article 12. RULE 16b-3 COMPLIANCE. It is the express intent of the Company that this Program complies in all respects with applicable provisions of the Rule 16b-3 or Rule 16a-1(c)(3) under the Exchange Act in connection with any grant of awards to, or other transaction by, a Plan Participant who is subject to Section 16 of the Exchange Act (except for transactions exempted under alternative Exchange Act Rules). Accordingly, if any provision of the Program or any agreement relating to any award thereunder does not comply with Rule 16b-3 or Rule 16a-1(c)(3) as then applicable to any such transaction, such provision will be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 or Rule 16a-1(c)(3) so that such Plan Participant shall avoid liability under Section 16(b).

Article 13. PERFORMANCE-BASED AWARDS.

(a) Each agreement for the grant of Performance Shares shall specify the number of Performance Shares subject to such agreement, the Performance Period and the Performance Objective (each as defined below), and each agreement for the grant of any other award that the Program Administrators determine to make subject to a Performance Objective similarly shall specify the applicable number of shares of Common Stock, the period for measuring performance and the Performance Objective. As used herein, "PERFORMANCE OBJECTIVE" means a performance objective specified in the agreement for a Performance Share, or for any other award which the Program Administrators determine to make subject to a Performance Objective, upon which the vesting or settlement of such award is conditioned and "PERFORMANCE PERIOD" means the period of time specified in an agreement over which Performance Shares, or another award which the Program Administrators determine to make subject to a Performance Objective, are to be

earned. Each agreement for a performance-based grant shall specify in respect of a Performance Objective the minimum level of performance below which no payment will be made, shall describe the method for determining the amount of any payment to be made if performance is at or above the minimum acceptable level, but falls short of full achievement of the Performance Objective, and shall specify the maximum percentage payout under the agreement. Such maximum percentage in no event shall exceed one hundred percent (100%) in the case of performance-based restricted shares and two hundred percent (200%) in the case of Performance Shares or performance-based Dividend Equivalent Rights.

(b) The Program Administrators shall determine and specify, in their discretion, the Performance Objective in the agreement for a Performance Share or for any other performance-based award, which Performance Objective shall consist of: (i) one or more business criteria, including (except as limited under subparagraph (c) below for awards to Covered Employees (as defined below)) financial, service level and individual performance criteria; and (ii) a targeted level or levels of performance with respect to such criteria. Performance Objectives may differ between Plan Participants and between types of awards from year to year.

(c) The Performance Objective for Performance Shares and any other performance-based award granted to a Covered Employee, if deemed appropriate by the Program Administrators, shall be objective and shall otherwise meet the requirements of Section 162(m)(4)(C) of the Code, and shall be based upon one or more of the following performance-based business criteria, either on a business unit or Company-specific basis or in comparison with peer group performance: net sales; gross sales; return on net assets; return on assets; return on equity; return on capital; return on revenues; cash flow; book value; share price performance (including Options and SARs tied solely to appreciation in the Fair Market Value of the shares); earnings per share; stock price earnings ratio; earnings before interest, taxes, depreciation and amortization expenses ("EBITDA"); earnings before interest and taxes ("EBIT"); or EBITDA, EBIT or earnings before taxes and unusual or nonrecurring items as measured either against the annual budget or as a ratio to revenue. Achievement of any such Performance Objective shall be measured over a period of years not to exceed ten (10) as specified by the Program Administrators in the agreement for the performance-based award. No business criterion other than those named above in this Article 13(c) may be used in establishing the Performance Objective for an award to a Covered Employee under this Article 13. For each such award relating to a Covered Employee, the Program Administrators shall establish the targeted level or levels of performance for each such business criterion. The Program Administrators may, in their discretion, reduce the amount of a payout otherwise to be made in connection with an award under this Article 13(c), but may not exercise discretion to increase such amount, and the Program Administrators may consider other performance criteria in exercising such discretion. All determinations by the Program Administrators as to the achievement of Performance Objectives under this Article 13(c) shall be made in writing. The Program Administrators may not delegate any responsibility under this Article 13(c). As used herein, "COVERED EMPLOYEE" shall mean, with respect to any grant of an award, an executive of the Company or any subsidiary who is a member of the executive compensation group under the Company's compensation practices (not necessarily an executive officer) whom the Program Administrators deem may be or become a covered employee as defined in Section 162(m)(3) of the Code for any year that such award may result in remuneration over $1 million which would not be deductible under Section 162(m) of the Code but for the provisions of the Program and any other "qualified performance-based compensation" plan (as defined under Section 162(m) of the Code) of the Company; PROVIDED, HOWEVER, that the Program Administrators may determine that a Plan Participant has ceased to be a Covered Employee prior to the settlement of any award.

(d) The Program Administrators, in their sole discretion, may require that one or more award agreements contain provisions which provide that, in the event Section 162(m) of the Code, or any successor provision relating to excessive employee remuneration, would operate to disallow a deduction by the Company with respect to all or part of any award under the Program, a Plan Participant's receipt of the benefit relating to such award that would not be deductible by the Company shall be deferred until the next succeeding year or years in which the Plan Participant's remuneration does not exceed the limit set forth in such provisions of the Code.

Article 14. DEATH BENEFICIARIES. In the event of a Plan Participant's death, all of such person's outstanding awards, including his or her rights to receive any accrued but unpaid Stock Payments, will transfer to the maximum extent permitted by law to such person's beneficiary (except to the extent a permitted transfer of a Nonqualified Option or SAR was previously made pursuant hereto). Each Plan

Participant may name, from time to time, any beneficiary or beneficiaries (which may be named contingently or successively) as his or her beneficiary for purposes of this Program. Each designation shall be on a form prescribed by the Program Administrators, will be effective only when delivered to the Company, and when effective will revoke all prior designations by the Plan Participant. If a Plan Participant dies with no such beneficiary designation in effect, such person's beneficiary shall be his or her estate and such person's awards will be transferable by will or pursuant to laws of descent and distribution applicable to such person.

Article 15. UNFUNDED PROGRAM. The Program shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by awards under the Program. Neither the Company, its affiliates, the Program Administrators, nor the Board shall be deemed to be a trustee of any amounts to be paid under the Program nor shall anything contained in the Program or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between any such party and a Plan Participant or anyone claiming on his or her behalf. To the extent a Plan Participant or any other person acquires a right to receive payment pursuant to an award under the Program, such right shall be no greater than the right of an unsecured general creditor of the Company.

Article 16. CHOICE OF LAW AND VENUE. The Program and all related documents shall be governed by, and construed in accordance with, the laws of the State of California. Acceptance of an award shall be deemed to constitute consent to the jurisdiction and venue of the Superior Court of Santa Barbara County, California and the United States District Court of the Central District of California for all purposes in connection with any suit, action or other proceeding relating to such award, including the enforcement of any rights under the Program or any agreement or other document, and shall be deemed to constitute consent to any process or notice of motion in connection with such proceeding being served by certified or registered mail or personal service within or without the State of California, provided a reasonable time for appearance is allowed.

Article 17. ARBITRATION. Any disputes involving the Program will be resolved by arbitration in Santa Barbara, California before one (1) arbitrator in accordance with the Rules of the American Arbitration Association.

Article 18. PROGRAM ADMINISTRATOR'S RIGHT. Except as may be provided in an award agreement, the Program Administrators may, in their discretion, waive any restrictions or conditions applicable to, or accelerate the vesting of, any award (other than the right to purchase shares pursuant to the Stock Purchase Plan). The Program Administrators may also modify or revise any form of stock option agreement or other form required to implement the Program.

Article 19. TERMINATION OF BENEFITS UNDER CERTAIN CONDITIONS. The Program Administrators, in their sole discretion, may cancel any unexpired, unpaid or deferred award (other than a right to purchase shares pursuant to the Stock Purchase Plan) at any time if the Plan Participant is not in compliance with all applicable provisions of the Program or any award agreement or if the

Plan Participant, whether or not he or she is currently employed by the Company or one of its subsidiaries, acts in a manner contrary to the best interests of the Company and its subsidiaries.

Article 20. CONFLICTS IN PROGRAM. In case of any conflict in the terms of the Program, or between the Program and an award agreement, the provisions in the Program which specifically grant such award shall control, and the provisions in the Program shall control over the provisions in any award agreement.

Article 21. OPTIONAL DEFERRAL. The right to receive any award under the Program (other than the right to purchase shares pursuant to the Stock Purchase Plan) may, at the request of the Plan Participant, be deferred to such period and upon such terms and conditions as the Program Administrators shall, in their discretion, determine, which may include crediting of interest on deferrals of cash and crediting of dividends on deferrals denominated in shares of Common Stock.

Article 22. RESTRICTIONS ON COMMON STOCK. Each Plan Participant who acquires Common Stock or rights to acquire Common Stock will be subject to all restrictions applicable to the Common Stock as set forth in the Company's Articles of Incorporation.

PLAN I

QAD INC.
INCENTIVE STOCK OPTION PLAN

Section 1. PURPOSE. The purpose of this QAD Inc. Incentive Stock Option Plan (the "INCENTIVE PLAN") is to promote the growth and general prosperity of the Company by permitting the Company to grant options to purchase shares of its Common Stock. The Incentive Plan is designed to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries, and to provide individuals with an additional incentive to contribute to the success of the Company. The Company intends that options granted pursuant to the provisions of the Incentive Plan will qualify as "INCENTIVE STOCK OPTIONS" within the meaning of Section 422 of the Code. This Incentive Plan is Part I of the Program. Unless any provision herein indicates to the contrary, this Incentive Plan shall be subject to the General Provisions of the Program.

Section 2. OPTION TERMS AND CONDITIONS. The terms and conditions of options granted under the Incentive Plan may differ from one another as the Program Administrators shall, in its discretion, determine as long as all options granted under the Incentive Plan satisfy the requirements of the Incentive Plan.

Section 3. DURATION OF OPTIONS. Each option and all rights thereunder granted pursuant to the terms of the Incentive Plan shall expire on the date determined by the Program Administrators, but in no event shall any option granted under the Incentive Plan expire later than ten (10) years from the date on which the option is granted. However, notwithstanding the above portion of this Section 3, if at the time the option is granted the grantee (the "OPTIONEE") owns or would be considered to own by reason of Code Section 424(d) more than 10% of the total combined voting power of all classes of stock of the Company or its subsidiaries, such option shall expire not more than 5 years from

the date the option is granted. In addition, each option shall be subject to early termination as provided in the Incentive Plan.

Section 4. PURCHASE PRICE. The purchase price for shares acquired pursuant to the exercise, in whole or in part, of any option shall not be less than the fair market value of the shares at the time of the grant of the option. Fair market value (the "FAIR MARKET VALUE") shall be determined by the Board of Directors on the basis of such factors as they deem appropriate; PROVIDED, HOWEVER, that Fair Market Value on any day shall be deemed to be, if the Common Stock is traded on a national securities exchange, the closing price (or, if no reported sale takes place on such day, the mean of the reported bid and asked prices) of the Common Stock on such day on the principal such exchange, or, if the stock is included on the composite tape, the composite tape. In each case, the Program Administrators' determination of Fair Market Value shall be conclusive.

Notwithstanding the above portion of this Section 4, if at the time an option is granted the Optionee owns or would be considered to own by reason of Code Section 424(d) more than 10% of the total combined voting power of all classes of stock of the Company or its subsidiaries, the purchase price of the shares covered by such option shall not be less than 110% of the Fair Market Value of a share of Common Stock on the date the option is granted.

Section 5. MAXIMUM AMOUNT OF OPTIONS EXERCISABLE IN ANY CALENDAR YEAR. Notwithstanding any other provision of this Incentive Plan, the aggregate Fair Market Value (determined at the time any Incentive Stock Option is granted) of the Common Stock with respect to which Incentive Stock

Options become exercisable for the first time by any employee during any calendar year under all stock option plans of the Company and its subsidiaries shall not exceed $100,000.

Section 6. EXERCISE OF OPTIONS. Each option shall be exercisable in one or more installments during its term as determined by the Program Administrators, and the right to exercise may be cumulative as determined by the Program Administrators. No option may be exercised for a fraction of a share of Common Stock. The purchase price of any shares purchased shall be paid in full in cash or by certified or cashier's check payable to the order of the Company or by shares of Common Stock, if permitted by the Program Administrators, or by a combination of cash, check, or shares of Common Stock, at the time of exercise of the option. If any portion of the purchase price is paid in shares of Common Stock, those shares shall be tendered at their then Fair Market Value as determined by the Program Administrators in accordance with Section 4 of this Incentive Plan. Payment in shares of Common Stock includes the automatic application of shares of Common Stock received upon exercise of an option to satisfy the exercise price for additional options.

Section 7. REORGANIZATION. In the event of the dissolution or liquidation of the Company, any option granted under the Incentive Plan shall terminate as of a date to be fixed by the Program Administrators; provided that not less than 30 days' written notice of the date so fixed shall be given to each Optionee and each such Optionee shall have the right during such period (unless such option shall have previously expired) to exercise any option, including any option that would not otherwise be exercisable by reason of an insufficient lapse of time.

In the event of a Reorganization (as defined below) in which the Company is not the surviving or acquiring company, or in which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization, then:

(a) if there is no plan or agreement respecting the Reorganization (the "REORGANIZATION AGREEMENT") or if the Reorganization Agreement does not specifically provide for the change, conversion or exchange of the outstanding options for options of another corporation, then exercise and termination provisions equivalent to those described in this Section 7 shall apply; or

(b) if there is a Reorganization Agreement and if the Reorganization Agreement specifically provides for the change,

conversion, or exchange of the outstanding options for options of another corporation, then the Program Administrators shall adjust the outstanding unexercised options (and shall adjust the options remaining under the Incentive Plan which have not yet been granted if the Reorganization Agreement makes specific provision for such an adjustment) in a manner consistent with the applicable provisions of the Reorganization Agreement.

The term "REORGANIZATION" as used in this Section 7 shall mean any statutory merger, statutory consolidation, sale of all or substantially all of the assets of the Company or a sale of the Common Stock pursuant to which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization.

Adjustments and determinations under this Section 7 shall be made by the Program Administrators, whose decisions as to such adjustments or determinations shall be final, binding, and conclusive.

Section 8. WRITTEN NOTICE REQUIRED. Any option granted pursuant to the terms of the Incentive Plan shall be exercised when written notice of that exercise has been given to the Company at its principal office by the person entitled to exercise the option and full payment for the shares with respect to which the option is exercised, together with payment of applicable income taxes, has been received by the Company.

Section 9. COMPLIANCE WITH SECURITIES LAWS. Shares shall not be issued with respect to any option granted under the Incentive Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant to that exercise shall comply with all applicable provisions of foreign, state and federal law including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require an Optionee to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restriction imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Optionee shall consent to the imposition of a legend on the shares of Common Stock subject to his or her Option and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 9.

Section 10. EMPLOYMENT OF OPTIONEE. Each Optionee, if requested by the Program Administrators, must agree in writing as a condition of receiving his or her option, that he or she will remain in the employment of the Company or its subsidiary corporations following the date of the granting of that option for a period specified by the Program Administrators. Nothing in the Incentive Plan or in any option granted hereunder shall confer upon any Optionee any right to continued employment by the Company or its subsidiary corporations or limit in any way the right of the Company or its subsidiary corporations at any time to terminate or alter the terms of that employment.

Section 11. OPTION RIGHTS UPON TERMINATION OF EMPLOYMENT. If an Optionee ceases to be employed by the Company or any subsidiary corporation for any reason other than death or disability, his or her option shall immediately terminate unless a minimum exercise period is required by applicable Department of Corporations regulations to which the Company may then be subject; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised (to the extent exercisable on the date of termination of employment) at any time within sixty (60) days after the date of termination of employment, unless either the option or the Incentive Plan otherwise provides for earlier termination.

Section 12. OPTION RIGHTS UPON DISABILITY. If an Optionee becomes disabled within the meaning of Code Section 422(e)(3) while employed by the Company or any subsidiary corporation, the Program Administrators, in their discretion, may allow the option to be exercised, to the extent exercisable on the date of termination of employment, at any time within one year after the

date of termination of employment due to disability, unless either the option or the Incentive Plan otherwise provides for earlier termination.

Section 13. OPTION RIGHTS UPON DEATH OF OPTIONEE. Except as otherwise limited by the Program Administrators at the time of the grant of an option, if an Optionee dies while employed by the Company or any subsidiary corporation, his or her Option shall expire one year after the date of death unless by its terms it expires sooner. During this one year or shorter period, the option may be exercised, to the extent that it remains unexercised on the date of death, by the person or persons to whom the Optionee's

rights under the option shall pass by will or by the laws of descent and distribution, but only to the extent that the Optionee is entitled to exercise the option at the date of death.

Section 14. OPTIONS NOT TRANSFERABLE. Options granted pursuant to the terms of the Incentive Plan may not be sold, pledged, assigned, or transferred in any manner otherwise than by will or the laws of descent or distribution and may be exercised during the lifetime of an Optionee only by that Optionee. No such options shall be pledged or hypothecated in any way nor shall they be subject to execution, attachment, or similar process.

Section 15. ADJUSTMENTS TO NUMBER AND PURCHASE PRICE OF OPTIONED SHARES. All options granted pursuant to the terms of this Incentive Plan shall be adjusted in the manner prescribed by Article 6 of the General Provisions of this Program.

PLAN II

QAD INC.
NONQUALIFIED STOCK OPTION PLAN

Section 1. PURPOSE. The purpose of this QAD Inc., NonQualified Stock Option Plan (the "NONQUALIFIED PLAN") is to permit the Company to grant options to purchase shares of its Common Stock. The Nonqualified Plan is designed to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries, and to provide individuals with an additional incentive to contribute to the success of the Company. Any option granted pursuant to the Nonqualified Plan shall be clearly and specifically designated as not being an incentive stock option, as defined in Section 422 of the Code. This Nonqualified Plan is Part II of the Program. Unless any provision herein indicates to the contrary, the Nonqualified Plan shall be subject to the General Provisions of the Program.

Section 2. OPTION TERMS AND CONDITIONS. The terms and conditions of options granted under the Nonqualified Plan may differ from one another as the Program Administrators shall in their discretion determine as long as all options granted under the Nonqualified Plan satisfy the requirements of the Nonqualified Plan.

Section 3. DURATION OF OPTIONS. Each option and all rights thereunder granted pursuant to the terms of the Nonqualified Plan shall expire on the date determined by the Program Administrators, but in no event shall any option granted under the Nonqualified Plan expire later than ten (10) years from the date on which the option is granted. In addition, each option shall be subject to early termination as provided in the Nonqualified Plan.

Section 4. PURCHASE PRICE. The purchase price for shares acquired pursuant to the exercise, in whole or in part, of any option may be at, higher than or below the fair market value of the shares at the time of the grant of the option. Fair market value (the "FAIR MARKET VALUE") shall be determined by the Program Administrators on the basis of such factors as they deem appropriate; PROVIDED, HOWEVER, that Fair Market Value on any day shall be deemed to be, if the Common Stock is traded on a national securities exchange, the closing price (or, if no reported sale takes place on such day, the mean of the reported bid and asked prices) of the Common Stock on such day on the principal such exchange, or, if the stock is included on the composite tape, the composite tape. In each case, the Program Administrators' determination of Fair Market Value shall be conclusive.

Section 5. EXERCISE OF OPTIONS. Each option shall be exercisable in one or more installments during its term and the right to exercise may be cumulative as determined by the Program Administrators. No option may be exercised for a fraction of a share of Common Stock. The purchase price of any shares purchased shall be paid in full in cash or by certified or cashier's check payable to the order of the Company or by shares of Common Stock, if permitted by the Program Administrators, or by a combination of cash, check, or shares of Common Stock, at the time of exercise of the option. If any portion of the purchase price is paid in shares of Common Stock, those shares shall be tendered at their then Fair Market Value as determined by the Program Administrators in accordance with Section 4 of the Nonqualified Plan. Payment in shares of Common Stock includes the automatic application of shares of Common Stock received upon exercise of an option to satisfy the exercise price for additional options.

Section 6. REORGANIZATION. In the event of the dissolution or liquidation of the Company, any option granted under the Nonqualified Plan shall terminate as of a date to be fixed by the

Program Administrators; provided that not less than 30 days' written notice of the date so fixed shall be given to each Optionee and each such Optionee shall have the right during such period (unless such option shall have previously expired) to exercise any option, including any option that would not otherwise be exercisable by reason of an insufficient lapse of time.

In the event of a Reorganization (as defined below) in which the Company is not the surviving or acquiring company, or in which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization, then:

(a) if there is no plan or agreement respecting the Reorganization ("REORGANIZATION AGREEMENT") or if the Reorganization Agreement does not specifically provide for the change, conversion or exchange of the outstanding options for options of another corporation, then exercise and termination provisions equivalent to those described in this Section 6 shall apply; or

(b) if there is a Reorganization Agreement and if the Reorganization Agreement specifically provides for the change, conversion, or exchange of the outstanding options for options of another corporation, then the Program Administrators shall adjust the outstanding unexercised options (and shall adjust the options remaining under the Nonqualified Plan which have not yet been granted if the Reorganization Agreement makes specific provision for such an adjustment) in a manner consistent with the applicable provisions of the Reorganization Agreement.

The term "REORGANIZATION" as used in this Section 6 shall mean any statutory merger, statutory consolidation, sale of all or substantially all of the assets of the Company or a sale of the Common Stock pursuant to which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization.

Adjustments and determinations under this Section 6 shall be made by the Program Administrators, whose decisions as to such adjustments or determinations shall be final, binding, and conclusive.

Section 7. WRITTEN NOTICE REQUIRED. Any option granted pursuant to the terms of this Nonqualified Plan shall be exercised when written notice of that exercise has been given to the Company at its principal office by the person entitled to exercise the option and full payment for the shares with respect to which the option is exercised has been received by the Company.

Section 8. COMPLIANCE WITH SECURITIES LAWS. Shares of Common Stock shall not be issued with respect to any option granted under the Nonqualified Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require an Optionee to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Optionee shall consent to the imposition of a legend on the shares of Common Stock subject to his or her option and the

imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 8.

Section 9. CONTINUED EMPLOYMENT OR SERVICE. Each Optionee, if requested by the Program Administrators, must agree in writing as a condition of receiving his or her Option, to remain in the employment of, or service to, the Company or any of its subsidiaries following the date of the granting of that option for a period specified by the Program Administrators. Nothing in this Nonqualified Plan or in any option granted hereunder shall confer upon any Optionee any right to continued employment by, or service to, the Company or any of its subsidiaries, or limit in any way the right of the Company or any subsidiary at any time to terminate or alter the terms of that employment or service arrangement.

Section 10. OPTION RIGHTS UPON TERMINATION OF EMPLOYMENT OR SERVICE. If an Optionee under this Nonqualified Plan ceases to be employed by, or provide services to, the Company or any of its subsidiaries for any reason other than death or disability, his or her option shall immediately terminate, unless a minimum exercise period is required by applicable Department of Corporations regulations to which the Company may then be subject; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised, to the extent exercisable on the date of termination of employment or service, at any time within sixty (60) days after the date of termination of employment or service, unless either the option or this Nonqualified Plan otherwise provides for earlier termination.

Section 11. OPTION RIGHTS UPON DISABILITY. If an Optionee becomes disabled within the meaning of Code Section 422 (e) (3) while employed by the Company or any subsidiary corporation, the Program Administrators, in their discretion, may allow the option to be exercised, to the extent exercisable on the date of termination of employment, at any time within one year after the date of termination of employment due to disability, unless either the option or the Nonqualified Plan otherwise provides for earlier termination.

Section 12. OPTION RIGHTS UPON DEATH OF OPTIONEE. Except as otherwise limited by the Program Administrators at the time of the grant of an option, if an Optionee dies while employed by, or providing services to, the Company or any of its subsidiaries, his or her option shall expire one year after the date of death unless by its terms it expires sooner. During this one year or shorter period, the option may be exercised, to the extent that it remains unexercised on the date of death, by the person or persons to whom the Optionee's rights under the option shall pass by will or by the laws of descent and distribution, but only to the extent that the Optionee is entitled to exercise the option at the date of death.

Section 13. OPTIONS NOT TRANSFERABLE. Options granted pursuant to the terms of this Nonqualified Plan may not be sold, pledged, assigned, or transferred in any manner otherwise than by will or the laws of descent or distribution and may be exercised during the lifetime of an Optionee only by that Optionee. No such options shall be pledged or hypothecated in any way nor shall they be subject to execution, attachment, or similar process.

Section 14. ADJUSTMENTS TO NUMBER AND PURCHASE PRICE OF OPTIONED SHARES. All options granted pursuant to the terms of this Nonqualified Plan shall be adjusted in a manner prescribed by Article 6 of the General Provisions of the Program.

PLAN III

QAD INC.
RESTRICTED SHARE PLAN

Section 1. PURPOSE. The purpose of this Restricted Share Plan (the "RESTRICTED PLAN") is to promote the growth and general prosperity of the Company by permitting the Company to grant restricted shares to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries and to provide individuals with an additional incentive to contribute to the success of the Company. The Restricted Plan is Part III of the Program. Unless any provision herein indicates to the contrary, the Restricted Plan shall be subject to the General Provisions of the Program.

Section 2. TERMS AND CONDITIONS. The terms and conditions of restricted shares granted under the Restricted Plan may differ from one another as the Program Administrators shall, in their discretion, determine as long as all restricted shares granted under the Restricted Plan satisfy the requirements of the Restricted Plan.

Each restricted share grant shall provide to the recipient (the "HOLDER") the transfer of a specified number of shares of Common Stock of the Company that shall become nonforfeitable upon the achievement of specified service or performance conditions within a specified period or periods (the "RESTRICTION PERIOD") as determined by the Program Administrators. At the time that the restricted share is granted, the Program Administrators shall specify the service or performance conditions and the period of duration over which the conditions apply.

The Holder of restricted shares shall not have any rights with respect to such award, unless and until such Holder has executed an agreement evidencing the terms and conditions of the award (the "RESTRICTED SHARE AWARD AGREEMENT"). Each individual who is awarded restricted shares shall be issued a stock certificate in respect of such shares. Such certificate shall be registered in the name of the Holder and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award, substantially in the following form:

> The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the QAD Inc., Restricted Share Plan and Restricted Share Award Agreement entered into between the registered owner and QAD Inc. Copies of such Plan and Agreement are on file in the offices of QAD Inc.

The Program Administrators shall require that the stock certificates evidencing such shares be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any restricted share award, the Holder shall have delivered a stock power, endorsed in blank, relating to the stock covered by such award. At the expiration of each Restriction Period, the Company shall redeliver to the Holder certificates held by the Company representing the shares with respect to which the applicable conditions have been satisfied.

Section 3. NONTRANSFERABLE. Subject to the provisions of the Restricted Plan and the Restricted Share Award Agreements, during the Restriction Period as may be set by the Program Administrators commencing on the

grant date, the Holder shall not be permitted to sell, transfer, pledge, or assign shares of restricted shares awarded under the Restricted Plan.

Section 4. RESTRICTED SHARE RIGHTS UPON TERMINATION OF EMPLOYMENT OR SERVICE. If a Holder terminates employment or service with the company prior to the expiration of the Restriction Period, any restricted shares granted to him subject to such Restriction Period shall be forfeited by the Holder and shall be transferred to the Company. The Program Administrators may, in their sole discretion, accelerate the lapsing of or waive such restrictions in whole or in part based upon such factors and such circumstances as the Program Administrators may determine, in its sole discretion, including, but not limited to, the Plan Participant's retirement, death, or disability.

Section 5. STOCKHOLDER RIGHTS. The Holder shall have, with respect to the restricted shares granted, all of the rights of a stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon. Certificates for shares of unrestricted stock shall be delivered to the grantee promptly after, and only after, the Restriction Period shall expire without forfeiture in respect of such restricted shares.

Section 6. COMPLIANCE WITH SECURITIES LAWS. Shares shall not be issued under the Restricted Plan unless the issuance and delivery of the shares pursuant thereto shall comply with all relevant provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require a Holder to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Holder shall consent to the imposition of a legend on the shares of Common Stock issued pursuant to the Restricted Share Plan and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 6.

Section 7. CONTINUED EMPLOYMENT OR SERVICE. Each Holder, if requested by the Program Administrators, must agree in writing as a condition of the granting of his or her restricted shares, to remain in the employment of, or service to, the Company or any of its subsidiaries following the date of the granting of that restricted share for a period specified by the Program Administrators. Nothing in the Restricted Plan or in any restricted share granted hereunder shall confer upon any Holder any right to continued employment by, or service to, the Company or any of its subsidiaries, or limit in any way the right of the Company or any subsidiary at any time to terminate or alter the terms of that employment or service arrangement.

PLAN IV

QAD INC.
EMPLOYEE STOCK PURCHASE PLAN

Section 1. PURPOSE. The purpose of the QAD Inc. Employee Stock Purchase Plan (the "STOCK PURCHASE PLAN") is to promote the growth and general prosperity of the Company by permitting the Company to sell to employees of the Company and its subsidiaries shares of the Company's stock in accordance with Section 423 of the Code ("SECTION 423"), and it is the intention of the Company to have the Stock Purchase Plan qualify as an Employee Stock Purchase Plan in accordance with Section 423, and the Stock Purchase Plan shall be construed to administer stock purchases and to extend and limit participation consistent with the requirements of Section 423. The Stock Purchase Plan will be administered by the Program Administrators. Unless any provision herein indicates to the contrary, this Stock Purchase Plan shall be subject to the General Provisions of

the Program.

Section 2. TERMS AND CONDITIONS. The terms and conditions of shares to be offered to be sold to employees of the Company and its subsidiaries under the Stock Purchase Plan shall comply with Section 423.

Section 3. OFFERING PERIODS AND PARTICIPATION. The Stock Purchase Plan shall be implemented through a series of periods established by Program Administrators (the "OFFERING PERIODS"). A full-time employee may participate in the Stock Purchase Plan and may enroll in an Offering Period by delivering to the Company's payroll office an agreement evidencing the terms and conditions of the stock subscription in a form prescribed by the Program Administrators (the "PURCHASE AGREEMENT") at least thirty (30) business days prior to the Enrollment Date for that Offering Period (or such lesser number of business days as the Program Administrators, in their sole discretion, may permit). Purchases will be made through payroll deductions, unless direct purchases have been approved by the Program Administrators. The first day of each Offering Period will be the "Enrollment Date" and the last day of each period will be the "Exercise Date."

Section 4. PURCHASE PRICE. The Purchase Price means an amount as determined by the Program Administrators that is the lesser of: (a) the Purchase Price Discount from the Fair Market Value of a share of Common Stock on the Enrollment Date, or (b) the Purchase Price Discount from the Fair Market Value of a share of Common Stock on the Exercise Date. The "Purchase Price Discount" shall mean the amount of the discount from the Fair Market Value granted to Plan Participants not to exceed fifteen percent (15%) of the Fair Market Value as established by the Board from time to time. "Fair Market Value" of a share of stock shall be determined by the Board. However, if the Stock is publicly-traded, fair market value of a share of Stock shall be based upon the closing or other appropriate trading price per share of Stock on a national securities exchange.

Section 5. GRANTS.

(a) GRANTS. On the Enrollment Date for each Offering Period, each Eligible Employee participating in such Offering Period shall be granted the right to purchase on each Exercise Date during such Offering Period (at the Purchase Price) shares of Common Stock in an amount from time to time specified by the Program Administrators as set forth in Section 5(b) below. The Program Administrators will also establish the Purchase Price Discount and the Periodic Exercise Limit. The right to purchase shall expire immediately after the last Exercise Date of the Offering Period.

(b) GRANT LIMITATIONS. Any provisions of the Stock Purchase Plan to the contrary notwithstanding, no Plan Participant shall be granted a right to purchase under the Stock Purchase Plan:

(i) if, immediately after the grant, such Plan Participant would own stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any subsidiary (applying the constructive ownership rules of Section 424(d) of the Code and treating stock that a Plan Participant may acquire under outstanding options as stock owned by the Plan Participant);

(ii) that permits such Plan Participant's rights to purchase stock under all employee stock purchase plans of the Company and its subsidiaries to accrue at a rate that exceeds Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the Fair Market Value of the shares at the time such purchase) in any calendar year (computed utilizing the rules of Section 423(b)(8) of the Code); or

(iii) that permits a Plan Participant to purchase Stock in excess of twenty percent (20%) of his or her Compensation, which shall include the gross base salary or hourly compensation paid to a Plan Participant and the gross amount of any targeted bonus, without reduction for contributions to any 401(k) plan sponsored by the Company.

(c) NO RIGHTS IN RESPECT OF UNDERLYING STOCK. The Plan

Participant will have no interest or voting right in shares covered by a right to purchase until such purchase has been completed.

(d) PLAN ACCOUNT. The Company shall maintain a plan account for the Plan Participants in the Stock Purchase Plan, to which are credited the payroll deductions made for such Plan Participant pursuant to Section 6 and from which are debited amounts paid for the purchase of shares.

(e) COMMON STOCK ACCOUNT. As a condition of participation in the Stock Purchase Plan, each Plan Participant shall be required to receive shares purchased under the Stock Purchase Plan in a common stock account (the "COMMON STOCK ACCOUNT") maintained by the Company to hold the Common Stock purchased under the Stock Purchase Plan. The shares may be released at such times and under such conditions as designated by the Program Administrators.

(f) DIVIDENDS ON SHARES. Subject to the limitations of Section 5(a) hereof and Section 423(b)(8) of the Code, all cash dividends, if any, paid with respect to shares of Common Stock purchased under the Stock Purchase Plan and held in a Plan Participant's Common Stock Account shall be automatically invested in shares of Common Stock purchased at 100% of Fair Market Value on the next Exercise Date. All non-cash distributions on Common Stock purchased under the Stock Purchase Plan and held in a Plan Participant's Common Stock Account shall be paid to the Plan Participant as soon as practicable.

Section 6. PAYROLL DEDUCTIONS/DIRECT PURCHASES.

(a) PLAN PARTICIPANT DESIGNATIONS. The Purchase Agreement applicable to an Offering Period shall designate payroll deductions to be made on each payday during the Offering Period as a whole number percentage specified by the Program Administrators of such Eligible

Employee's Compensation for the pay period preceding such payday. Direct purchases may be permitted on such terms specified by the Program Administrators.

(b) PLAN ACCOUNT BALANCES. The Company shall make payroll deductions as specified in each Plan Participant's Subscription Agreement on each payday during the Offering Period and credit such payroll deductions to such Plan Participant's Plan Account. A Plan Participant may not make any additional payments into such Plan Account. No interest will accrue on any payroll deductions. All payroll deductions received or held by the Company under the Stock Purchase Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions.

(c) PLAN PARTICIPANT CHANGES. A Plan Participant may only discontinue his or her participation in the Stock Purchase Plan as provided in Section 9. A Plan Participant may only increase or decrease (subject to such limits as the Program Administrator may impose) the rate of his or her payroll deductions at the start of any Offering Period by filing with the Company a new Subscription Agreement authorizing such a change in the payroll deduction rate. The change in rate shall be effective with the first Offering Period following the Company's receipt of the new Subscription Agreement.

(d) DECREASES. Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 4(b) herein, a Plan Participant's payroll deductions shall be decreased to zero percent at such time during any Purchase Period that is scheduled to end during a calendar year (the "CURRENT PURCHASE PERIOD") when the aggregate of all payroll deductions previously used to purchase stock under the Stock Purchase Plan in a prior Purchase Period which ended during that calendar year plus all payroll deductions accumulated with respect to the Current Purchase Period equal to the maximum permitted by Section 423(b)(8) of the Code. Payroll deductions shall recommence at the rate provided in such Plan Participant's Subscription Agreement at the beginning of the first Purchase Period that is scheduled to end in the following calendar year, unless terminated by the Plan Participant as provided in Section 9.

(e) TAX OBLIGATIONS. At the time of the purchase of shares, and at the time any Common Stock issued under the Stock Purchase Plan to a Plan Participant is disposed of, the Plan Participant must adequately provide for the Company's federal, state or other tax withholding obligations, if any, that arise upon the purchase of shares or the disposition of the Common Stock. At any time, the Company may, but will not be obligated to, withhold from the Plan Participant's Compensation the amount necessary for the Company to meet applicable withholding obligations, including, but not limited to, any withholding required to make available to the Company any tax deductions or benefit attributable to sale or early disposition of Common Stock by the eligible employee.

(f) STATEMENTS OF ACCOUNT. The Company shall maintain each Plan Participant's Plan Account and shall give each Plan Participant a statement of account at least annually. Such statements will set forth the amounts of payroll deductions, the Purchase Price applicable to the Common Stock purchased, the number of shares purchased, the remaining cash balance and the dividends received, if any, for the period covered.

Section 7. PURCHASE OF SHARES.

(a) AUTOMATIC EXERCISE ON EXERCISE DATES. Unless a Plan Participant withdraws as provided in Section 9 below, his or her right to purchase of shares will be exercised automatically on each Exercise Date within the Offering Period in which such Plan Participant is enrolled for the maximum whole number of shares of Common Stock as can then be purchased at the applicable Purchase Price with the payroll deductions accumulated in such Plan Participant's Plan Account and not yet applied to the purchase of shares under the Stock Purchase Plan, subject to the Periodic Exercise Limit. All such shares purchased under the Stock Purchase Plan shall be credited to the Plan Participant's Common Stock Account. During a Plan Participant's lifetime, a Plan Participant's options to purchase shares under the Stock Purchase Plan shall be exercisable only by the Plan Participant.

(b) EXCESS PLAN ACCOUNT BALANCES. If, due to application of the Periodic Exercise Limit or otherwise, there remains in a Plan Participant's Plan Account immediately following exercise of such Plan Participant's election to purchase shares on an Exercise Date any cash accumulated immediately preceding such Exercise Date and not applied to the purchase of shares under the Stock Purchase Plan, such cash shall promptly be returned to the Plan Participant; PROVIDED, HOWEVER, that if the Plan Participant shall be enrolled in the Offering Period (including, without limitation, by not withdrawing pursuant to Section 9), such cash shall be contributed to the Plan Participant's Plan Account for such next Purchase Period.

Section 8. HOLDING PERIOD. The Program Administrators may establish, as a condition to participation, a holding period of up to one (1) year following the Exercise Date during which a Plan Participant may not sell, transfer or encumber the shares purchased under the Stock Purchase Plan.

Section 9. WITHDRAWAL; TERMINATION OF EMPLOYMENT.

(a) VOLUNTARY WITHDRAWAL. A Plan Participant may withdraw from an Offering Period by giving written notice to the Company's payroll office at least thirty (30) business days prior to the next Exercise Date. Such withdrawal shall be effective no later than thirty (30) business days after receipt by the Company's payroll office of notice thereof. On or promptly following the effective date of any withdrawal, all (but not less than all) of the withdrawing Plan Participant's payroll deductions credited to his or her Plan Account and not yet applied to the purchase of shares under the Stock Purchase Plan will be paid to such Plan Participant, and on the effective date of such withdrawal such Plan Participant's option to purchase shares for the Offering Period will be automatically terminated and no further payroll deductions for the purchase of shares will be made during the Offering Period. If a Plan Participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of any succeeding Offering Period, unless the Plan Participant delivers to the Company a new Subscription Agreement with respect thereto.

(b) TERMINATION OF EMPLOYMENT. Promptly after a Plan Participant's ceasing to be an employee for any reason all shares of Common Stock held in a Plan Participant's Common Stock Account and the payroll deductions credited to such Plan Participant's Plan Account and not yet applied to the purchase of shares under the Stock Purchase Plan will be returned to such Plan Participant or, in the case of his or her death, to the person or persons entitled thereto, and such Plan Participant's option to purchase shares will be automatically terminated, PROVIDED that, if the Company does not learn of such death more than five (5) business days prior to an Exercise Date,

payroll deductions credited to such Plan Participant's Plan Account may be applied to the purchase of shares under the Stock Purchase Plan on such Exercise Date.

Section 10. NON-TRANSFERABILITY. Neither payroll deductions credited to a Plan Participant's Plan Account nor any rights with regard to the exercise of a purchase of shares or to receive shares under the Stock Purchase Plan may be assigned, transferred, pledged or otherwise disposed of by the Plan Participant in any way other than by will or the laws of descent and distribution, and any purchase of shares by a Plan Participant shall, during such Plan Participant's lifetime, be exercisable only by such Plan Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Program Administrator may treat such act as an election to withdraw from an offering period in accordance with Section 9.

Section 11. COMPLIANCE WITH SECURITIES LAWS. Shares shall not be issued with respect to the Stock Purchase Plan, unless the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require a Plan Participant to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Plan Participant shall consent to the imposition of a legend on the shares of Common Stock subject to his or her Option and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 11.

Section 12. CONTINUED EMPLOYMENT OR SERVICE. Each Plan Participant, if requested by the Program Administrators, must agree in writing, to remain in the employment of, or service to, the Company or any of its subsidiaries following the date of the granting of that option to purchase shares for a period specified by the Program Administrators. Nothing in this Stock Purchase Plan shall confer upon any Plan Participant any right to continued employment by, or service to, the Company or any of its subsidiaries, or limit in any way the right of the Company or any subsidiary at any time to terminate or alter the terms of that employment or service arrangement.

PLAN V

QAD INC.
NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

Section 1. PURPOSE; PLAN. The purpose of this QAD Inc., Non-Employee Director Stock Option Plan (the "DIRECTORS PLAN") is to permit the Company to grant options to purchase shares of its Common Stock to non-employee

directors of the Company. Any option granted pursuant to the Directors Plan shall be clearly and specifically designated as not being an incentive stock option, as defined in Section 422 of the Code. This Directors Plan is Part V of the Program. Unless any provision herein indicates to the contrary, the Directors Plan shall be subject to the General Provisions of the Program. On the next to last business day of each fiscal year of the Company (or in the event a Director is elected or appointed to the Board during the fiscal year, on the date of the Director's election or appointment), the Company shall grant to each non-employee director of the Company options to purchase that number of shares of Common Stock as determined annually by the Program Administrators. The Program Administrators may also grant to Directors Options in lieu of cash fees at option prices established by the Program Administrators. The terms and conditions of options granted under the Directors Plan shall be in duration, form and substance as the Program Administrators shall in their discretion determine, but in no event shall any option granted under the Directors Plan expire later than ten (10) years from the date on which the option is granted.

Section 2. COMPLIANCE WITH SECURITIES LAWS. Shares of Common Stock shall not be issued with respect to any option granted under the Directors Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require an Optionee to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Optionee shall consent to the imposition of a legend on the shares of Common Stock subject to his or her option and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 2.

Section 3. EXERCISE OF OPTIONS. Each option shall be exercisable in one or more installments during its term as determined by the Program Administrators, and the right to exercise may be cumulative as determined by the Program Administrators. No option may be exercised for a fraction of a share of Common Stock. The purchase price of any shares purchased shall be paid in full in cash or by certified or cashier's check payable to the order of the Company or by shares of Common Stock, if permitted by the Program Administrators, or by a combination of cash, check, or shares of Common Stock, at the time of exercise of the option. If any portion of the purchase price is paid in shares of Common Stock, those shares shall be tendered at their then Fair Market Value as determined by the Program Administrators. Payment in shares of Common Stock includes the automatic application of shares of Common Stock received upon exercise of an option to satisfy the exercise price for additional options.

Section 4. REORGANIZATION. In the event of the dissolution or liquidation of the Company, any option granted under the Directors' Plan shall terminate as of a date to be fixed by the Program Administrators; provided that not less than 30 days' written notice of the date so fixed shall be given to each Optionee and each such Optionee shall have the right during such period (unless such option shall have previously expired) to exercise any option, including any option that would not otherwise be exercisable by reason of an insufficient lapse of time.

In the event of a Reorganization (as defined below) in which the Company is not the surviving or acquiring company, or in which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization, then:

(a) if there is no plan or agreement respecting the Reorganization (the "REORGANIZATION AGREEMENT") or if the Reorganization Agreement does not specifically provide for the change, conversion or exchange of the outstanding options for options of another corporation, then exercise and termination provisions

equivalent to those described in this Section 4 shall apply; or

(b) if there is a Reorganization Agreement and if the Reorganization Agreement specifically provides for the change, conversion, or exchange of the outstanding options for options of another corporation, then the Program Administrators shall adjust the outstanding unexercised options (and shall adjust the options remaining under the Directors Plan which have not yet been granted if the Reorganization Agreement makes specific provision for such an adjustment) in a manner consistent with the applicable provisions of the Reorganization Agreement.

The term "REORGANIZATION" as used in this Section 4 shall mean any statutory merger, statutory consolidation, sale of all or substantially all of the assets of the Company or a sale of the Common Stock pursuant to which the Company is or becomes a subsidiary of another company after the effective date of the Reorganization.

Adjustments and determinations under this Section 4 shall be made by the Program Administrators, whose decisions as to such adjustments or determinations shall be final, binding, and conclusive.

Section 5. OPTION RIGHTS UPON TERMINATION OF EMPLOYMENT. If an Optionee ceases to be employed by the Company or any subsidiary corporation for any reason other than death or disability, his or her option shall immediately terminate; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised (to the extent exercisable on the date of termination of employment) at any time within sixty (60) days after the date of termination of employment, unless either the option or the Directors Plan otherwise provides for earlier termination.

Section 6. OPTION RIGHTS UPON DISABILITY. If an Optionee becomes disabled within the meaning of Code Section 422(e)(3) while employed by the Company or any subsidiary corporation, the Program Administrators, in their discretion, may allow the option to be exercised, to the extent exercisable on the date of termination of employment, at any time within one year after the date of termination of employment due to disability, unless either the option or the Directors Plan otherwise provides for earlier termination.

Section 7. OPTION RIGHTS UPON DEATH OF OPTIONEE. Except as otherwise limited by the Program Administrators at the time of the grant of an option, if an Optionee dies while employed by the Company or any subsidiary corporation, his or her Option shall expire one year after the date of death unless by its terms it expires sooner. During this one year or shorter period, the option may be exercised, to the extent that it remains unexercised on the date of death, by the person or persons to whom the Optionee's rights under the option shall pass by will or by the laws of descent and distribution, but only to the extent that the Optionee is entitled to exercise the option at the date of death.

Section 8. OPTIONS NOT TRANSFERABLE. Options granted pursuant to the terms of the Directors Plan may not be sold, pledged, assigned, or transferred in any manner otherwise than by will or the laws of descent or distribution and may be exercised during the lifetime of an Optionee only by that Optionee. No such options shall be pledged or hypothecated in any way nor shall they be subject to execution, attachment, or similar process.

Section 9. ADJUSTMENTS TO NUMBER AND PURCHASE PRICE OF OPTIONED SHARES. All options granted pursuant to the terms of this Directors Plan shall be adjusted in the manner prescribed by Article 6 of the General Provisions of this Program.

PLAN VI
STOCK APPRECIATION RIGHTS PLAN

Section 1. SAR TERMS AND CONDITIONS. The purpose of this Stock Appreciation Rights Plan (the "SAR PLAN") is to promote the growth and general prosperity of the Company by permitting the Company to grant restricted shares to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries and to provide individuals with an additional incentive to contribute to the success of the Company. The terms and conditions of SARs granted under the SAR Plan may differ from one another as the Program Administrators shall, in their discretion, determine in each SAR agreement (the "SAR AGREEMENT"). Unless any provision herein indicates to the contrary, this SAR Plan shall be subject to the General Provisions of the Program.

Section 2. DURATION OF SARS. Each SAR and all rights thereunder granted pursuant to the terms of the SAR Plan shall expire on the date determined by the Program Administrators as evidenced by the SAR Agreement, but in no event shall any SAR expire later than ten (10) years from the date on which the SAR is granted. In addition, each SAR shall be subject to early termination as provided in the SAR Plan.

Section 3. GRANT. Subject to the terms and conditions of the SAR Agreement, the Program Administrators may grant the right to receive a payment upon the exercise of a SAR which reflects the appreciation in the Fair Market Value of the number of shares of Common Stock for which such SAR was granted to any person who is eligible to receive Awards either: (i) in tandem with the grant of an Incentive Option; (ii) in tandem with the grant of a Nonqualified Option; or (iii) independent of the grant of an Incentive Option or Nonqualified Option. Each grant of a SAR which is in tandem with the grant of an Incentive Option or Nonqualified Option shall be evidenced by the same agreement as the Incentive Option or Nonqualified Option which is granted in tandem with such SAR and such SAR shall relate to the same number of shares of Common Stock to which such Option shall relate and such other terms and conditions as the Program Administrators, in their sole discretion, deem are not inconsistent with the terms of the SAR Plan, including conditions on the exercise of such SAR which relate to the employment of the Plan Participant or any requirement that the Plan Participant exchange a prior outstanding option and/or SAR.

Section 4. PAYMENT AT EXERCISE. Upon the settlement of a SAR in accordance with the terms of the SAR Agreement, the Plan Participant shall (subject to the terms and conditions of the SAR Plan and SAR Agreement) receive a payment equal to the excess, if any, of the SAR Exercise Price (as defined below) for the number of shares of the SAR being exercised at that time over the SAR Grant Price (as defined below) for such shares. Such payment may be paid in cash or in shares of the Company's Common Stock or by a combination of the foregoing, at the time of exercise of the SAR, specified by the Program Administrators in the SAR Agreement. If any portion of the payment is paid in shares of the Company's Common Stock, such shares shall be valued for this purpose at the SAR Exercise Price on the date the SAR is exercised and any payment in shares which calls for a payment in fractional share shall automatically be paid in cash based on such valuation. As used herein, "SAR Exercise Date" shall mean the date on which the exercise of a SAR occurs under the SAR Agreement, "SAR Exercise Price" shall mean the Fair Market Value of a share of Common Stock on a SAR Exercise Date and "SAR Grant Price" shall mean the price which would have been the option exercise price for one share of Common Stock if the SAR had been granted as an option, or if the SAR granted in tandem with an option, the option exercise price per share for the related option.

Section 5. SPECIAL TERMS AND CONDITIONS. Each SAR Agreement which evidences the grant of a SAR shall incorporate such terms and conditions as the Program Administrators in their absolute discretion deem are not inconsistent with the terms of the SAR Plan and the agreement for Incentive Option or Nonqualified Option, if any, granted in tandem with such SAR except that: (i) if a SAR is granted in tandem with an Incentive Option or Nonqualified Option, the SAR shall be exercisable only when the related Incentive Option or Nonqualified

Option is exercisable; and (ii) the Plan Participant's right to exercise a SAR granted in tandem with an Incentive Option or Nonqualified Option shall be forfeited to the extent that the Plan Participant exercises the related Incentive Option or Nonqualified Option and the Plan Participant's right to exercise the Incentive Option or Nonqualified Option shall be forfeited to the extent the Plan Participant exercises the related SAR, but any such forfeiture shall not count as a forfeiture for purposes of making the shares subject to such option or SAR again available for use under the General Provisions of the Plan.

Section 6. COMPLIANCE WITH SECURITIES LAWS. Shares shall not be issued with respect to any option granted under the SAR Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require an SAR Holder to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each SAR Holder shall consent to the imposition of a legend on the shares of Common Stock subject to his or her option and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 6.

Section 7. CONTINUED EMPLOYMENT OR SERVICE. Each SAR Holder, if requested by the Program Administrators, must agree in writing as a condition of receiving his or her option, to remain in the employment of, or service to, the Company or any of its subsidiaries following the date of the granting of that option for a period specified by the Program Administrators. Nothing in this SAR Plan or in any option granted hereunder shall confer upon any SAR Holder any right to continued employment by, or service to, the Company or any of its subsidiaries, or limit in any way the right of the Company or any subsidiary at any time to terminate or alter the terms of that employment or service arrangement.

Section 8. OPTION RIGHTS UPON TERMINATION OF EMPLOYMENT OR SERVICE. If an SAR Holder under this SAR Plan ceases to be employed by, or provide services to, the Company or any of its subsidiaries for any reason other than death or disability, his or her option shall immediately terminate; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised, to the extent exercisable on the date of termination of employment or service.

Section 9. OPTION RIGHTS UPON DISABILITY. If an SAR Holder becomes disabled within the meaning of Code Section 422 (e) (3) while employed by the Company or any subsidiary corporation, the Program Administrators, in their discretion, may allow the option to be exercised, to the extent exercisable on the date of termination of employment, at any time within one year after the date of termination of employment due to disability, unless either the option or the SAR Plan otherwise provides for earlier termination.

Section 10. OPTION RIGHTS UPON DEATH OF SAR HOLDER. Except as otherwise limited by the Program Administrators at the time of the grant of an option, if an SAR Holder dies while employed by, or providing services to, the Company or any of its subsidiaries, his or her option shall expire one year after the date of death unless by its terms it expires sooner. During this one year or shorter period, the option may be exercised, to the extent that it remains unexercised on the date of death, by the person or persons to whom the SAR Holder's rights under the option shall pass by will or by the laws of descent and distribution, but only to the extent that the SAR Holder is entitled to exercise the option at the date of death.

Section 11. OPTIONS NOT TRANSFERABLE. Options granted pursuant to the terms of this Nonqualified Plan may not be sold, pledged, assigned, or transferred in any manner otherwise than by will or the laws of descent or

distribution and may be exercised during the lifetime of an SAR Holder only by that SAR Holder. No such options shall be pledged or hypothecated in any way nor shall they be subject to execution, attachment, or similar process.

PLAN VII
OTHER STOCK RIGHTS PLAN

Section 1. TERMS AND CONDITIONS. The purpose of the Other Stock Rights Plan (the "STOCK RIGHTS PLAN") is to promote the growth and general prosperity of the Company by permitting the Company to grant restricted shares to help attract and retain superior personnel for positions of substantial responsibility with the Company and its subsidiaries to provide individuals with an additional incentive to the success of the Company. The terms and conditions of Performance Shares, Stock Payments or Dividend Equivalent Rights granted under the Stock Rights Plan may differ from one another as the Program Administrators shall, in their discretion, determine in each stock rights agreement (THE "STOCK RIGHTS AGREEMENT"). Unless any provision herein indicates to the contrary, this Stock Rights Plan shall be subject to the General Provisions of the Program.

Section 2. DURATION. Each Performance Share or Dividend Equivalent Right and all rights thereunder granted pursuant to the terms of the Stock Rights Plan shall expire on the date determined by the Program Administrators as evidenced by the Stock Rights Agreement, but in no event shall any Performance Shares or Dividend Equivalent Rights expire later than ten (10) years from the date on which the Performance Shares or Dividend Equivalent Rights are granted. In addition, each Performance Share, Stock Payment or Dividend Equivalent Right shall be subject to early termination as provided in the Stock Rights Plan.

Section 3. GRANT. Subject to the terms and conditions of the Stock Rights Agreement, the Program Administrators may grant Performance Shares, Stock Payments or Dividend Equivalent Rights as provided under the Stock Rights Plan. Each grant of Performance Shares, Dividend Equivalent Rights and Stock Payments shall be evidenced by a Stock Rights Agreement, which shall state the terms and conditions of each as the Program Administrators, in their sole discretion, deem are not inconsistent with the terms of the Stock Rights Plan.

Section 4. PERFORMANCE SHARES. Performance Shares shall become payable to a Plan Participant based upon the achievement of specified Performance Objectives and upon such other terms and conditions as the Program Administrators may determine and specify in the Stock Rights Agreement evidencing such Performance Shares. Each grant shall satisfy the conditions for performance-based awards hereunder and under the General Provisions. A grant may provide for the forfeiture of Performance Shares in the event of termination of employment or other events, subject to exceptions for death, disability, retirement or other events, all as the Program Administrators may determine and specify in the Stock Rights Agreement for such grant. Payment may be made for the Performance Shares at such time and in such form as the Program Administrators shall determine and specify in the Stock Rights Agreement and payment for any Performance Shares may be made in full in cash or by certified cashier's check payable to the order of the Company or, if permitted by the Program Administrators, by shares of the Company's Common Stock or by the surrender of all or part of an award, or in other property, rights or credits deemed acceptable by the Program Administrators or, if permitted by the Program Administrators, by a combination of the foregoing. If any portion of the purchase price is paid in shares of the Company's Common Stock, those shares shall be tendered at their then Fair Market Value as determined by the Program Administrators in accordance herewith. Payment in shares of Common Stock includes the automatic application of shares of Common

Stock received upon the exercise or settlement of Performance Shares or other option or Award to satisfy the exercise or settlement price.

Section 5. STOCK PAYMENTS. The Program Administrators may grant Stock Payments to a person eligible to receive the same as a bonus or additional compensation or in lieu of the obligation of the Company or a subsidiary to pay cash compensation under other compensatory arrangements, with or without the election of the eligible person (except in the case of stock in lieu of normal salary or compensation), provided that the Plan Participant will be required to pay an amount equal to the aggregate par value of any newly issued Stock Payments. A Plan Participant shall have all the voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Plan Participant as a Stock Payment upon the Plan Participant becoming holder of record of such shares of Common Stock; provided, however, the Program Administrators may impose such restrictions on the assignment or transfer of such shares of Common Stock as they deem appropriate and as are evidenced in the Stock Rights Agreement for such Stock Payment.

Section 6. DIVIDEND EQUIVALENT RIGHTS. The Program Administrators may grant Dividend Equivalent Rights in tandem with the grant of Incentive Option or Nonqualified Option, SARs, Restricted Shares or Performance Shares that otherwise do not provide for the payment of dividends on the shares of Common Stock subject to such awards for the period of time to which such Dividend Equivalent Rights apply, or may grant Dividend Equivalent Rights that are independent of any other such award. A Dividend Equivalent Right granted in tandem with another award may be evidenced by the agreement for such other award; otherwise, a Dividend Equivalent Right shall be evidenced by a separate Stock Rights Agreement. Payment may be made by the Company in cash or by shares of the Company's Common Stock or by a combination of the foregoing, may be immediate or deferred and may be subject to such employment, performance objectives or other conditions as the Program Administrators may determine and specify in the Stock Rights Agreement for such Dividend Equivalent Rights. The total payment attributable to a share of Common Stock subject to a Dividend Equivalent Right shall not exceed one hundred percent (100%) of the equivalent dividends payable with respect to an outstanding share of Common Stock during the term of such Dividend Equivalent Right, taking into account any assumed investment (including assumed reinvestment in shares of Common Stock) or interest earnings on the equivalent dividends as determined under the Stock Rights Agreement in the case of a deferred payment, provided that such percentage may increase to a maximum of two hundred percent (200%) if a Dividend Equivalent Right is subject to a Performance Objective.

Section 7. COMPLIANCE WITH SECURITIES LAWS. Shares shall not be issued with respect to any option granted under the Stock Rights Plan, unless the exercise of that option and the issuance and delivery of the shares pursuant thereto shall comply with all applicable provisions of foreign, state and federal law, including, without limitation, the Securities Act of 1933, as amended, and the Exchange Act, and the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance. The Program Administrators may also require a Participant to furnish evidence satisfactory to the Company, including a written and signed representation letter and consent to be bound by any transfer restrictions imposed by law, legend, condition, or otherwise, that the shares are being purchased only for investment purposes and without any present intention to sell or distribute the shares in violation of any state or federal law, rule, or regulation. Further, each Participant shall consent to the imposition of a legend on the shares of Common Stock subject to his or her option and the imposition of stop-transfer instructions restricting their transferability as required by law or by this Section 7.

Section 8. CONTINUED EMPLOYMENT OR SERVICE. Each Participant, if requested by the Program Administrators, must agree in writing as a condition of receiving his or her option, to remain in the employment of, or service to, the Company or any of its subsidiaries following the date of the granting of that option for a period specified by the Program Administrators. Nothing in this Stock Rights Plan in any option granted hereunder shall confer upon any Participant any right to continued employment by, or service to, the Company or any of its subsidiaries, or limit in any way the right of the Company or any subsidiary at any time to terminate or alter the terms of that employment or

service arrangement.

Section 9. OPTION RIGHTS UPON TERMINATION OF EMPLOYMENT OR SERVICE. If a Participant under this Stock Rights Plan an ceases to be employed by, or provide services to, the Company or any of its subsidiaries for any reason other than death or disability, his or her option shall immediately terminate; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised, to the extent exercisable on the date of termination of employment or service, at any time within sixty (60) days after the date of termination of employment or service, unless either the option or this Stock Rights Plan otherwise provides for earlier termination.

Section 10. OPTION RIGHTS UPON DISABILITY. If a Participant becomes disabled within the meaning of Code Section 422 (e) (3) while providing services to the Company or any subsidiary corporation, the Program Administrators, in their discretion, may allow the option to be exercised, to the extent exercisable on the date of termination of service, at any time within one year after the date of termination of service due to disability, unless either the option or the Stock Rights Plan otherwise provides for earlier termination.

Section 11. OPTION RIGHTS UPON TERMINATION OF SERVICE. If a Participant ceases to provide services to the Company or any subsidiary corporation for any reason other than death or disability, his or her option shall immediately terminate; PROVIDED, HOWEVER, that the Program Administrators may, in their sole and absolute discretion, allow the option to be exercised (to the extent exercisable on the date of termination of service) at any time within sixty (60) days after the date of termination of service, unless either the option or the Incentive Plan otherwise provides for earlier termination.

Section 12. OPTION RIGHTS UPON DEATH OF OPTIONEE. Except as otherwise limited by the Program Administrators at the time of the grant of an option, if a Participant dies while employed by the Company or any subsidiary corporation, his or her Option shall expire one year after the date of death unless by its terms it expires sooner. During this one year or shorter period, the option may be exercised, to the extent that it remains unexercised on the date of death, by the person or persons to whom the Participant's rights under the option shall pass by will or by the laws of descent and distribution, but only to the extent that the Participant is entitled to exercise the option at the date of death.

[LOGO]

LOAN AND SECURITY AGREEMENT

BORROWER: QAD, INC.
ADDRESS: 6450 VIA REAL
CARPINTERIA, CALIFORNIA 93013

DATE: JULY 3, 1996

This Loan and Security Agreement is entered into on the above date between GREYROCK BUSINESS CREDIT, a Division of NationsCredit Commercial Corporation ("GBC"), whose address is 300 North Continental Blvd., Suite 200, El Segundo, California 90245 and the borrower named above ("Borrower"), whose chief executive office is located at the above address ("Borrower's Address"). The Schedule to this Agreement (the "Schedule") being signed concurrently is an integral part of this Agreement. (Definitions of certain terms used in this Agreement are set forth in Section 8 below.)

1. LOANS.

1.1 LOANS. GBC will make loans to Borrower (the "Loans"), in amounts determined by GBC in its good faith business judgment, up to the amounts (the "Credit Limit") shown on the Schedule, provided no Default or Event of Default has occurred and is continuing. If at any time or for any reason the total of all outstanding Loans and all other Obligations exceeds the Credit Limit, Borrower shall immediately pay the amount of the excess to GBC, without notice or demand.

1.2 INTEREST. All Loans and all other monetary Obligations shall bear interest at the rate shown on the Schedule, except where expressly set forth to the contrary in this Agreement or in another written agreement signed by GBC and Borrower. Interest shall be payable monthly, on the last day of the month. Interest may, in GBC's discretion, be charged to Borrower's loan account, and the same shall thereafter bear interest at the same rate as the other Loans.

1.3 FEES. Borrower shall pay GBC the fee(s) shown on the Schedule, which are in addition to all interest and other sums payable to GBC and are not refundable.

2. SECURITY INTEREST.

2.1 SECURITY INTEREST. To secure the payment and performance of all of the Obligations when due, Borrower hereby grants to GBC a security interest in all of Borrower's interest in the following, whether now owned or hereafter acquired, and wherever located (collectively, the "Collateral"): All Inventory, Equipment, Receivables, and General Intangibles, including, without limitation, all of Borrower's Deposit Accounts, all money, all collateral in which GBC is granted a security interest pursuant to any other present or future agreement, all property now or at any time in the future in GBC's possession, and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products of the foregoing, and all books and records related to any of the foregoing.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE BORROWER.

In order to induce GBC to enter into this Agreement and to make Loans, Borrower represents and warrants to GBC as follows, and Borrower covenants that the following representations will continue to be true, and that Borrower will at all times comply with all of the following covenants:

3.1 CORPORATE EXISTENCE AND AUTHORITY. Borrower, if a corporation, is and will continue to be, duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation. Borrower is and will continue to be qualified and licensed to do business in all jurisdictions in which any failure to do so would have a material adverse effect on Borrower. The execution, delivery and performance by Borrower of this Agreement, and all other documents contemplated hereby (i) have been duly and validly authorized, (ii) are enforceable against Borrower in accordance with their terms (except as

enforcement may be limited by equitable principles and by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to creditors' rights generally), (iii) do not violate Borrower's articles or certificate of incorporation, or Borrower's by-laws, or any

law or any material agreement or instrument which is binding upon Borrower or its property, and (iv) do not constitute grounds for acceleration of any material indebtedness or obligation under any material agreement or instrument which is binding upon Borrower or its property*.

*(EXCEPT FOR THE EXISTING LOAN FROM UNION BANK, WHICH IS BEING PAID IN FULL CONCURRENTLY HEREWITH)

3.2 NAME; TRADE NAMES AND STYLES. The name of Borrower set forth in the heading to this Agreement is its correct name. Listed on the Schedule are all prior names of Borrower and all of Borrower's present and prior trade names. Borrower shall give GBC prior written notice before changing its name or doing business under any other name. Borrower has complied, and will in the future comply, with all laws relating to the conduct of business under a fictitious business name.

3.3 PLACE OF BUSINESS; LOCATION OF COLLATERAL. The address set forth in the heading to this Agreement is Borrower's chief executive office. In addition, Borrower has places of business and Collateral is located only at the locations set forth on the Schedule. Borrower will give GBC prior written notice before opening any additional place of business*, changing its chief executive office, or moving any of the Collateral to a location other than Borrower's Address or one of the locations set forth on the Schedule.

*(OTHER THAN SALES OFFICES)

3.4 TITLE TO COLLATERAL; PERMITTED LIENS. Borrower is now, and will at all times in the future be, the sole owner of all the Collateral, except for items of Equipment which are leased by Borrower. The Collateral now is and will remain free and clear of any and all liens, charges, security interests, encumbrances and adverse claims, except for Permitted Liens. GBC now has, and will continue to have, a first-priority perfected and enforceable security interest in all of the Collateral, subject only to the Permitted Liens, and Borrower will at all times defend GBC and the Collateral against all claims of others*. So long as any Loan is outstanding which is a term loan, none of the Collateral now is or will be affixed to any real property in such a manner, or with such intent, as to become a fixture. Borrower is not and will not become a lessee under any real property lease pursuant to which the lessor may obtain any rights in any of the Collateral and no such lease now prohibits, restrains, impairs or will prohibit, restrain or impair Borrower's right to remove any Collateral from the leased premises**. Whenever any Collateral is located upon premises in which any third party has an interest (whether as owner, mortgagee, beneficiary under a deed of trust, lien or otherwise), Borrower shall, whenever requested by GBC, use its best efforts to cause such third party to execute and deliver to GBC, in form acceptable to GBC, such waivers and subordinations as GBC shall specify, so as to ensure that GBC's rights in the Collateral are, and will continue to be, superior to the rights of any such third party.

*(SUBJECT TO THE RIGHTS OF HOLDERS OF PERMITTED LIENS)

**(SUBJECT TO STATUTORY RIGHTS OF LANDLORDS)

3.5 MAINTENANCE OF COLLATERAL. Borrower will maintain the Collateral in good working condition, ordinary wear and tear excepted, and Borrower will not use the Collateral for any unlawful purpose. Borrower will immediately advise GBC in writing of any material loss or damage to the Collateral.

3.6 BOOKS AND RECORDS. Borrower has maintained and will maintain at Borrower's Address complete and accurate books and records, comprising an accounting system in accordance with generally accepted accounting principles.

3.7 FINANCIAL CONDITION, STATEMENTS AND REPORTS. All financial statements now or in the future delivered to GBC have been, and will be, prepared in conformity with generally accepted accounting principles and now and in the future will completely and fairly reflect the financial condition of Borrower, at the times and for the periods therein stated. Between the last date covered by any such statement provided to GBC and the date hereof, there has been no

material adverse change in the financial condition or business of Borrower. Borrower is now and will continue to be solvent.

3.8 TAX RETURNS AND PAYMENTS; PENSION CONTRIBUTIONS. Borrower has timely filed, and will timely file, all tax returns and reports * required by applicable law, and Borrower has timely paid, and will timely pay, all applicable taxes, assessments, deposits and contributions now or in the future owed by Borrower. Borrower may, however, defer payment of any contested taxes, provided that Borrower (i) in good faith contests Borrower's obligation to pay the taxes by appropriate proceedings promptly and diligently instituted and conducted, (ii) notifies GBC in writing of the commencement of, and any material development in, the proceedings, and (iii) posts bonds or takes any other steps required to keep the contested taxes from becoming a lien upon any of the Collateral. ** Borrower is unaware of any *** claims or adjustments proposed for any of Borrower's prior tax years which could result in additional taxes becoming due and payable by Borrower. Borrower has paid, and shall continue to pay all amounts necessary to fund all present and future pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not and will not withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any such plan which could

result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or any other governmental agency. Borrower shall, at all times, utilize the services of an outside payroll service providing for the automatic deposit of all payroll taxes payable by Borrower****.

*KNOWN BY IT TO BE

**EXCEPT FOR A PENDING AUDIT BY THE CALIFORNIA STATE BOARD OF EQUALIZATION

***MATERIAL

****IN THE UNITED STATES

3.9 COMPLIANCE WITH LAW. Borrower has complied, and will comply, in all material respects, with all provisions of all applicable laws and regulations, including, but not limited to, those relating to Borrower's ownership of real or personal property, the conduct and licensing of Borrower's business, and all environmental matters.

3.10 LITIGATION. Except as disclosed in the Schedule, there is no claim, suit, litigation, proceeding or investigation pending or (to best of Borrower's knowledge) threatened by or against or affecting Borrower in any court or before any governmental agency (or any basis therefor known to Borrower) which * result, either separately or in the aggregate, in any material adverse change in the financial condition or business of Borrower, or in any material impairment in the ability of Borrower to carry on its business in substantially the same manner as it is now being conducted. Borrower will promptly inform GBC in writing of any claim, proceeding, litigation or investigation in the future threatened or instituted by or against Borrower involving any single claim of ** .

*COULD NORMALLY OR REASONABLY BE EXPECTED TO

**$100,000 OR MORE, OR INVOLVING $250,000 OR MORE IN THE AGGREGATE

3.11 USE OF PROCEEDS. All proceeds of all Loans shall be used solely for lawful business purposes.

4. RECEIVABLES.

4.1 REPRESENTATIONS RELATING TO RECEIVABLES. Borrower represents and warrants to GBC as follows: Each Receivable with respect to which Loans are requested by Borrower shall, on the date each Loan is requested and made, represent an undisputed, bona fide, existing, unconditional obligation of the Account Debtor created by the sale, delivery, and acceptance of goods or the rendition of services, in the ordinary course of Borrower's business.

4.2 REPRESENTATIONS RELATING TO DOCUMENTS AND LEGAL COMPLIANCE. Borrower represents and warrants to GBC as follows: All statements made and all unpaid balances appearing in all invoices, instruments and other documents evidencing

the Receivables are and shall be true and correct and all such invoices, instruments and other documents and all of Borrower's books and records are and shall be genuine and in all respects what they purport to be, and all signatories and endorsers have the capacity to contract. All sales and other transactions underlying or giving rise to each Receivable shall comply with all applicable laws and governmental rules and regulations. All signatures and indorsements on all documents, instruments, and agreements relating to all Receivables are and shall be genuine, and all such documents, instruments and agreements are and shall be legally enforceable in accordance with their terms.

4.3 SCHEDULES AND DOCUMENTS RELATING TO RECEIVABLES. Borrower shall deliver to GBC transaction reports and loan requests, schedules and assignments of all Receivables, and schedules of collections, all on GBC's standard forms; provided, however, that Borrower's failure to execute and deliver the same shall not affect or limit GBC's security interest and other rights in all of Borrower's Receivables, nor shall GBC's failure to advance or lend against a specific Receivable affect or limit GBC's security interest and other rights therein. Together with each such schedule and assignment, or later if requested by GBC, Borrower shall furnish GBC with copies (or, at GBC's request, originals*) of all contracts, orders, invoices, and other similar documents, and all original shipping instructions, delivery receipts, bills of lading, and other evidence of delivery, for any goods the sale or disposition of which gave rise to such Receivables, and Borrower warrants the genuineness of all of the foregoing. Borrower shall also furnish to GBC an aged accounts receivable trial balance in such form and at such intervals as GBC shall request. In addition, Borrower shall deliver to GBC the originals of all instruments, chattel paper, security agreements, guarantees and other documents and property evidencing or securing any Receivables, immediately upon receipt thereof and in the same form as received, with all necessary indorsements.

*, IF AVAILABLE

4.4 COLLECTION OF RECEIVABLES. Borrower shall have the right to collect all Receivables, unless and until a Default or an Event of Default has occurred. Borrower shall hold all payments on, and proceeds of, Receivables in trust for GBC, and Borrower shall deliver all such payments and proceeds to GBC, within one business day after receipt of the same, in their original form, duly endorsed, to be applied to the Obligations * in such order as GBC shall determine**.

*(OTHER THAN PAYMENTS NOT YET DUE ON THE TERM LOAN OR EQUIPMENT LOANS)

**, PROVIDED THAT PAYMENTS ON RECEIVABLES WHICH ARE PAID DIRECTLY TO BORROWER'S BANK BY THE ACCOUNT

DEBTORS SHALL BE REMITTED BY BORROWER TO GBC BY WIRE TRANSFER WITHIN ONE BUSINESS DAY AFTER RECEIPT. WITH RESPECT TO ALL SUCH PAYMENTS PAID DIRECTLY TO BORROWER'S BANK, BORROWER SHALL PROVIDE TO GBC LISTINGS OF ALL CHECKS AND COPIES OF ALL CHECKS SO RECEIVED BY BORROWER'S BANK WITHIN TWO BUSINESS DAYS AFTER BORROWER'S RECEIPT OF THE SAME FROM THE BANK. WITHIN 30 DAYS AFTER THE DATE HEREOF, BORROWER SHALL CAUSE SUCH BANK TO ENTER INTO A LOCKBOX AGREEMENT WITH GBC ON TERMS REASONABLY ACCEPTABLE TO GBC.

4.5 DISPUTES. Borrower shall notify GBC promptly of all disputes or claims relating to Receivables on the regular reports to GBC. Borrower shall not forgive, or settle any Receivable for less than payment in full, or agree to do any of the foregoing, except that Borrower may do so, provided that: (i) Borrower does so in good faith, in a commercially reasonable manner, in the ordinary course of business, and in arm's length transactions, which are reported to GBC on the regular reports provided to GBC; (ii) no Default or Event of Default has occurred and is continuing; and (iii) taking into account all such settlements and forgiveness, the total outstanding Loans and other Obligations will not exceed the Credit Limit.

4.6 RETURNS. Provided no Event of Default has occurred and is continuing, if any Account Debtor returns any Inventory to Borrower in the ordinary course of its business, Borrower shall promptly determine the reason for such return and promptly issue a credit memorandum to the Account Debtor in the appropriate amount (sending a copy to GBC). In the event any attempted return occurs after the occurrence of any Event of Default, Borrower shall (i) not accept any return without GBC's prior written consent, (ii) hold the returned Inventory in trust

for GBC, (iii) segregate all returned Inventory from all of Borrower's other property, (iv) conspicuously label the returned Inventory as GBC's property, and (v) immediately notify GBC of the return of any Inventory, specifying the reason for such return, the location and condition of the returned Inventory, and on GBC's request deliver such returned Inventory to GBC.

4.7 VERIFICATION. GBC may, from time to time, verify directly with the respective Account Debtors the validity, amount and other matters relating to the Receivables, by means of mail, telephone or otherwise, either in the name of Borrower or GBC or such other name as GBC may choose, and GBC or its designee may, at any time, notify Account Debtors that it has a security interest in the Receivables.

4.8 NO LIABILITY. GBC shall not under any circumstances be responsible or liable for any shortage or discrepancy in, damage to, or loss or destruction of, any goods, the sale or other disposition of which gives rise to a Receivable, or for any error, act, omission, or delay of any kind occurring in the settlement, failure to settle, collection or failure to collect any Receivable, or for settling any Receivable in good faith for less than the full amount thereof, nor shall GBC be deemed to be responsible for any of Borrower's obligations under any contract or agreement giving rise to a Receivable. Nothing herein shall, however, relieve GBC from liability for its own gross negligence or willful misconduct.

5. ADDITIONAL DUTIES OF THE BORROWER.

5.1 INSURANCE. Borrower shall, at all times, insure all of the tangible personal property Collateral and carry such other business insurance, with insurers reasonably acceptable to GBC, in such form and amounts as GBC may reasonably require, and Borrower shall provide evidence of such insurance to GBC, so that GBC is satisfied that such insurance is, at all times, in full force and effect. * All such insurance policies shall name GBC as an additional loss payee, and shall contain a lenders loss payee endorsement in form reasonably acceptable to GBC. Upon receipt of the proceeds of any such insurance, GBC shall apply such proceeds in reduction of the Obligations as GBC shall determine in its sole discretion, except that, provided no Default or Event of Default has occurred and is continuing, GBC shall release to Borrower insurance proceeds with respect to Equipment totaling less than ** , which shall be utilized by Borrower for the replacement of the Equipment with respect to which the insurance proceeds were paid. GBC may require reasonable assurance that the insurance proceeds so released will be so used. If Borrower fails to provide or pay for any insurance, GBC may, but is not obligated to, obtain the same at Borrower's expense. Borrower shall promptly deliver to GBC copies of all reports made to insurance companies.

*GBC ACKNOWLEDGES THAT BORROWER'S EXISTING INSURER AND INSURANCE IS ACCEPTABLE.

**$500,000

5.2 REPORTS. Borrower, at its expense, shall provide GBC with the written reports set forth in the Schedule, and such other written reports with respect to Borrower (including budgets, sales projections, operating plans and other financial documentation), as GBC shall from time to time reasonably specify.

5.3 ACCESS TO COLLATERAL, BOOKS AND RECORDS. At reasonable times, and on one business day's notice, GBC, or its agents, shall have the right to inspect the Collateral, and the right to audit and copy Borrower's books and records. GBC shall take reasonable steps to keep confidential all information obtained in any such inspection or audit, but GBC shall have the right to disclose any such information to its auditors, regulatory agencies, and attorneys, and pursuant to any subpoena or other legal process. The foregoing inspections and audits shall be at Borrower's expense and the charge therefor shall be $600 per person per day (or such higher amount as shall repre-

sent GBC's then current standard charge for the same), plus reasonable out-of-pockets expenses. Borrower shall not be charged more than $3,000 per audit (plus reasonable out-of-pockets expenses), nor shall audits be done more frequently than four times per calendar year, provided that the foregoing limits shall not apply after the occurrence of a Default or Event of Default, nor shall they restrict GBC's right to conduct audits at its own expense (whether or not a Default or Event of Default has occurred). Borrower will not enter into any

agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than Borrower's Address, without first obtaining GBC's written consent, which may be conditioned upon such accounting firm, service bureau or other third party agreeing to give GBC the same rights with respect to access to books and records and related rights as GBC has under this Agreement.

5.4 REMITTANCE OF PROCEEDS. + Proceeds arising from the sale or other disposition of any Collateral shall be delivered, in kind, by Borrower to GBC in the original form in which received by Borrower not later than the following business day after receipt by Borrower, to be applied to the Obligations in such order as GBC shall determine; provided that, * if no Default or Event of Default has occurred and is continuing, then Borrower shall not be obligated to remit to GBC the proceeds of the sale of Equipment which is sold in the ordinary course of business, in a good-faith arm's length transaction **. Except for the proceeds of the sale of Equipment as set forth above, Borrower shall not commingle proceeds of Collateral with any of Borrower's other funds or property, and shall hold such proceeds separate and apart from such other funds and property and in an express trust for GBC. Nothing in this Section limits the restrictions on disposition of Collateral set forth elsewhere in this Agreement.

*(I) BORROWER SHALL NOT BE OBLIGATED TO REMIT TO GBC THE PROCEEDS OF THE SALE OF EQUIPMENT WHICH IS SUBJECT TO A PERMITTED LIEN WITH PRIORITY OVER THE SECURITY INTEREST OF GBC, TO THE EXTENT PAID TO THE HOLDER OF THE PERMITTED LIEN, AND (II)

**IF NO EQUIPMENT LOANS (AS DEFINED IN THE SCHEDULE) HAVE BEEN MADE BY GBC MADE WITH RESPECT TO SUCH EQUIPMENT

+EXCEPT AS PROVIDED ABOVE IN SECTION 4.4, ALL

5.5 NEGATIVE COVENANTS. Except as may be permitted in the Schedule, Borrower shall not, without GBC's prior written consent, do any of the following: (i) merge or consolidate with another corporation or entity*; (ii) acquire any assets, except in the ordinary course of business; (iii) enter into any other transaction outside the ordinary course of business**; (iv) sell or transfer any Collateral, except that, provided no Default or Event of Default has occurred and is continuing, Borrower may (a) sell finished Inventory in the ordinary course of Borrower's business, and (b) sell Equipment in the ordinary course of business, in good-faith arm's length transactions; (v) store any Inventory or other Collateral with any warehouseman or other third party***; (vi) sell any Inventory on a sale-or-return, guaranteed sale, consignment, or other contingent basis; (vii) make any loans of any money or other assets****; (viii) incur any debts, outside the ordinary course of business, which would have a material, adverse effect on Borrower or on the prospect of repayment of the Obligations; (ix) guarantee or otherwise become liable with respect to the obligations of another party or entity; (x) pay or declare any dividends on Borrower's stock (except for dividends payable solely in stock of Borrower); (xi) redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's stock +; (xii) make any change in Borrower's capital structure which would have a material adverse effect on Borrower or on the prospect of repayment of the Obligations; or (xiii) dissolve or elect to dissolve; or (xiv) agree to do any of the foregoing.

*EXCEPT FOR A MERGER OR CONSOLIDATION WITH ANOTHER COMPANY IN THE SAME LINE OF BUSINESS AS BORROWER, IN A TRANSACTION IN WHICH BORROWER IS THE SURVIVING CORPORATION

**EXCEPT FOR INVESTMENTS OF MONEY IN STRATEGIC ALLIANCES OR JOINT VENTURES TO FACILITATE ITS BUSINESS, INCLUDING WITHOUT LIMITATION THE ENTERPRISE ENGINE

***UNLESS APPROPRIATE STEPS HAVE BEEN TAKEN TO PERFECT AND CONTINUE THE PERFECTION OF GBC'S SECURITY INTEREST (SUBJECT ONLY TO PERMITTED LIENS)

****EXCEPT TO EMPLOYEES IN GOOD-FAITH ARM'S LENGTH TRANSACTIONS IN THE ORDINARY COURSE OF BUSINESS

+EXCEPT FOR (I) COMPLETION OF PAYMENTS DUE FOR THE REPURCHASE OF SHARES FROM A FORMER EMPLOYEE AND SHAREHOLDER, SUSAN DUKE, REFLECTED ON BORROWER'S FINANCIAL STATEMENTS NOT EXCEEDING $1,037,500 AND (II) PURCHASE, AND REDEMPTIONS OF STOCK PURSUANT TO BORROWER'S EMPLOYEE STOCK PLAN AND PROGRAM IN AN AGGREGATE PURCHASE PRICE IN ANY FISCAL YEAR NOT TO EXCEED $1,000,000 (NET OF THE PURCHASE PRICE RECEIVED FOR STOCK IN SUCH FISCAL YEAR PURSUANT TO BORROWER'S EMPLOYEE STOCK PLAN AND PROGRAM).

5.6 LITIGATION COOPERATION. Should any third-party suit or proceeding be instituted by or against GBC with respect to any Collateral or in any manner relating to Borrower, Borrower shall, without expense to GBC, make available Borrower and its officers, employees and agents, and Borrower's books and records, without charge, to the extent that GBC may deem them reasonably necessary in order to prosecute or defend any such suit or proceeding.

5.7 NOTIFICATION OF CHANGES. Borrower will promptly notify GBC in writing of any change in its officers or directors, the opening of any new bank account or other deposit account, and any material adverse change in the business or financial affairs of Borrower.

5.8 FURTHER ASSURANCES. Borrower agrees, at its expense, on request by GBC, to execute all documents and take all actions, as GBC may deem reasonably necessary or useful in order to perfect and maintain GBC's perfected security interest in the Collateral, and in order to fully consummate the transactions contemplated by this Agreement.

5.9 INDEMNITY. Borrower hereby agrees to indemnify GBC and hold GBC harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, costs and expenses (including attorneys' fees), of every nature, character and description, which GBC may sustain or incur based upon or arising out of any of the Obligations, any actual or alleged failure to collect and pay over any withholding or other tax relating to Borrower or its employees, any relationship or agreement between GBC and Borrower, any actual or alleged failure of GBC to comply with any writ of attachment or other legal process relating to Borrower or any of its property, or any other matter, cause or thing whatsoever occurred, done, omitted or suffered to be done by GBC relating to Borrower or the Obligations (except any such amounts sustained or incurred as the result of the gross negligence or willful misconduct of GBC or any of its directors, officers, employees, agents, attorneys, or any other person affiliated with or representing GBC). Notwithstanding any provision in this Agreement to the contrary, the indemnity agreement set forth in this Section shall survive any termination of this Agreement and shall for all purposes continue in full force and effect.

6. TERM.

6.1 MATURITY DATE. This Agreement shall continue in effect until the maturity date set forth on the Schedule (the "Maturity Date"); provided that the Maturity Date shall automatically be extended, and this Agreement shall automatically and continuously renew, for successive additional terms of one year each, unless one party gives written notice to the other, not less than * days prior to the next Maturity Date, that such party elects to terminate this Agreement effective on the next Maturity Date.

*NINETY (90)

6.2 EARLY TERMINATION. This Agreement may be terminated prior to the Maturity Date as follows: (i) by Borrower, effective three business days after written notice of termination is given to GBC; or (ii) by GBC at any time after the occurrence of an Event of Default, without notice, effective immediately. If this Agreement is terminated by Borrower or by GBC under this Section 6.2, Borrower shall pay to GBC a termination fee (the "Termination Fee") in the amount shown on the Schedule. The Termination Fee shall be due and payable on the effective date of termination and thereafter shall bear interest at a rate equal to the highest rate applicable to any of the Obligations.

6.3 PAYMENT OF OBLIGATIONS. On the Maturity Date or on any earlier effective date of termination, Borrower shall pay and perform in full all Obligations, whether evidenced by installment notes or otherwise, and whether or not all or any part of such Obligations are otherwise then due and payable. Without limiting the generality of the foregoing, if on the Maturity Date, or on any earlier effective date of termination, there are any outstanding letters of credit issued based upon an application, guarantee, indemnity or similar agreement on the part of GBC, then on such date Borrower shall provide to GBC cash collateral in an amount equal to 110% of the face amount of all such letters of credit plus all interest, fees and costs due or (in GBC's estimation) likely to become due in connection therewith, to secure all of the Obligations relating to said letters of credit, pursuant to GBC's then standard form cash pledge agreement. Notwithstanding any termination of this Agreement, all of GBC's security interests in all of the Collateral and all of the terms and

provisions of this Agreement shall continue in full force and effect until all Obligations have been paid and performed in full; provided that, without limiting the fact that Loans are subject to the discretion of GBC, GBC may, in its sole discretion, refuse to make any further Loans after termination. No termination shall in any way affect or impair any right or remedy of GBC, nor shall any such termination relieve Borrower of any Obligation to GBC, until all of the Obligations have been paid and performed in full. Upon payment and performance in full of all the Obligations and termination of this Agreement, GBC shall promptly deliver to Borrower termination statements, requests for reconveyances and such other documents as may be reasonably required to terminate GBC's security interests.

7. EVENTS OF DEFAULT AND REMEDIES.

7.1 EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "Event of Default" under this Agreement, and Borrower shall give GBC immediate written notice thereof: (a) Any warranty, representation, statement, report or certificate made or delivered to GBC by Borrower or any of Borrower's officers, employees or agents, now or in the future, shall be untrue or misleading in a material respect; or (b) Borrower shall fail to pay when due any Loan or any interest thereon or any other monetary Obligation; or (c) the total Loans and other Obligations outstanding at any time shall exceed the Credit Limit; or (d) Borrower shall fail to perform any non-monetary Obligation which by its nature cannot be cured; or (e) Borrower shall fail to perform any other non-monetary Obligation, which failure is

not cured within * business days after the date performance is due; or (f) any levy, assessment, attachment, seizure, lien or encumbrance (other than a Permitted Lien) is made on all or any part of the Collateral which is not cured within 10 days after the occurrence of the same; or (g) any default or event of default occurs under any obligation secured by a Permitted Lien, which is not cured within any applicable cure period or waived in writing by the holder of the Permitted Lien; or (h) Borrower breaches any material contract or obligation, which has or may reasonably be expected to have a material adverse effect on Borrower's business or financial condition; or (i) dissolution, termination of existence, insolvency or business failure of Borrower or any Guarantor; or appointment of a receiver, trustee or custodian, for all or any part of the property of, assignment for the benefit of creditors by, or the commencement of any proceeding by Borrower or any Guarantor under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect; or (j) the commencement of any proceeding against Borrower or any Guarantor under any reorganization, bankruptcy, insolvency, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, now or in the future in effect, which is not cured by the dismissal thereof within 45 days after the date commenced; or (k) revocation or termination of, or limitation or denial of liability upon, any guaranty of the Obligations or any attempt to do any of the foregoing; or (l) revocation or termination of, or limitation or denial of liability upon, any pledge of any certificate of deposit, securities or other property or asset pledged by any third party to secure any or all of the Obligations, or any attempt to do any of the foregoing, or commencement of proceedings by or against any such third party under any bankruptcy or insolvency law; or (m) Borrower makes any payment on account of any indebtedness or obligation which has been subordinated to the Obligations other than as permitted in the applicable subordination agreement, or if any Person who has subordinated such indebtedness or obligations terminates or in any way limits or terminates its subordination agreement; or (n) there shall be a change in the record or beneficial ownership of an aggregate of more than ** of the outstanding shares of stock of Borrower, in one or more transactions, compared to the ownership of outstanding shares of stock of Borrower in effect on the date hereof, without the prior written consent of GBC; or (o) Borrower shall conceal, remove or transfer any part of its property, with intent to hinder, delay or defraud its creditors, or make or suffer any transfer of any of its property which may be fraudulent under any bankruptcy, fraudulent conveyance or similar law; or (p) there shall be a material adverse change in Borrower's business or financial condition. GBC may cease making any Loans hereunder during any of the above cure periods, and thereafter if an Event of Default has occurred.

*TEN (10) **50%

7.2 REMEDIES. Upon the occurrence and during the continuance of any Event

of Default, and at any time thereafter, GBC, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrower), * may do any one or more of the following: (a) Cease making Loans or otherwise extending credit to Borrower under this Agreement or any other document or agreement; (b) Accelerate and declare all or any part of the Obligations to be immediately due, payable, and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Obligation; (c) Take possession of any or all of the Collateral wherever it may be found, and for that purpose Borrower hereby authorizes GBC without judicial process to enter onto any of Borrower's premises without interference to search for, take possession of, keep, store, or remove any of the Collateral, and remain on the premises or cause a custodian to remain on the premises in exclusive control thereof, without charge for so long as GBC deems it reasonably necessary in order to complete the enforcement of its rights under this Agreement or any other agreement; provided, however, that should GBC seek to take possession of any of the Collateral by Court process, Borrower hereby irrevocably waives: (i) any bond and any surety or security relating thereto required by any statute, court rule or otherwise as an incident to such possession; (ii) any demand for possession prior to the commencement of any suit or action to recover possession thereof; and (iii) any requirement that GBC retain possession of, and not dispose of, any such Collateral until after trial or final judgment; (d) Require Borrower to assemble any or all of the Collateral and make it available to GBC at places designated by GBC which are reasonably convenient to GBC and Borrower, and to remove the Collateral to such locations as GBC may deem advisable; (e) Complete the processing, manufacturing or repair of any Collateral prior to a disposition thereof and, for such purpose and for the purpose of removal, GBC shall have the right to use Borrower's premises, vehicles, hoists, lifts, cranes, equipment and all other property without charge; (f) Sell, lease or otherwise dispose of any of the Collateral, in its condition at the time GBC obtains possession of it or after further manufacturing, processing or repair, at one or more public and/or private sales, in lots or in bulk, for cash, exchange or other property, or on credit, and to adjourn any such sale from time to time without notice other than oral announcement at the time scheduled for sale. GBC shall have the right to conduct such disposition on Borrower's premises without charge, for such time or times as GBC deems reasonable, or on GBC's premises, or elsewhere and the Collateral need not

be located at the place of disposition. GBC may directly or through any affiliated company purchase or lease any Collateral at any such public disposition, and if permissible under applicable law, at any private disposition. Any sale or other disposition of Collateral shall not relieve Borrower of any liability Borrower may have if any Collateral is defective as to title or physical condition or otherwise at the time of sale; (g) Demand payment of, and collect any Receivables and General Intangibles comprising Collateral and, in connection therewith, Borrower irrevocably authorizes GBC to endorse or sign Borrower's name on all collections, receipts, instruments and other documents, to take possession of and open mail addressed to Borrower and remove therefrom payments made with respect to any item of the Collateral or proceeds thereof, and, in GBC's sole discretion, to grant extensions of time to pay, compromise claims and settle Receivables, General Intangibles and the like for less than face value; and (h) Demand and receive possession of any of Borrower's federal and state income tax returns and the books and records utilized in the preparation thereof or referring thereto. All reasonable attorneys' fees, expenses, costs, liabilities and obligations incurred by GBC with respect to the foregoing shall be added to and become part of the Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. Without limiting any of GBC's rights and remedies, from and after the occurrence of any Event of Default, the interest rate applicable to the Obligations shall be increased by an additional ** percent per annum.

*EXCEPT FOR ONE GENERAL NOTICE STATING IN EFFECT THAT AN EVENT OF DEFAULT HAS OCCURRED AND (IF APPLICABLE) THAT GBC IS PROCEEDING TO EXERCISE ITS RIGHTS AND REMEDIES

**TWO

7.3 STANDARDS FOR DETERMINING COMMERCIAL REASONABLENESS. Borrower and GBC agree that a sale or other disposition (collectively, "sale") of * which complies with the following standards will conclusively be deemed to be commercially reasonable: (i) Notice of the sale is given to Borrower at least

seven ** prior to the sale, and, in the case of a public sale, notice of the sale is published at least seven days before the sale in a newspaper of general circulation in the county where the sale is to be conducted; (ii) Notice of the sale describes the collateral in general, non-specific terms; (iii) The sale is conducted at a place designated by GBC, with or without the * being present; (iv) The sale commences at any time between 8:00 a.m. and 6:00 p.m; (v) Payment of the purchase price in cash or by cashier's check or wire transfer is required; (vi) With respect to any sale of any of the *, GBC may (but is not obligated to) direct any prospective purchaser to ascertain directly from Borrower any and all information concerning the same. GBC shall be free to employ other methods of noticing and selling the *, in its discretion, if they are commercially reasonable.

*EQUIPMENT **BUSINESS DAYS

7.4 POWER OF ATTORNEY. Upon the occurrence and during the continuance of any Event of Default, without limiting GBC's other rights and remedies, Borrower grants to GBC an irrevocable power of attorney coupled with an interest, authorizing and permitting GBC (acting through any of its employees, attorneys or agents) at any time, at its option, but without obligation, with or without notice to Borrower, and at Borrower's expense, to do any or all of the following, in Borrower's name or otherwise, but GBC agrees to exercise the following powers in a commercially reasonable manner: (a) Execute on behalf of Borrower any documents that GBC may, in its sole discretion, deem advisable in order to perfect and maintain GBC's security interest in the Collateral, or in order to exercise a right of Borrower or GBC, or in order to fully consummate all the transactions contemplated under this Agreement, and all other present and future agreements; (b) Execute on behalf of Borrower any document exercising, transferring or assigning any option to purchase, sell or otherwise dispose of or to lease (as lessor or lessee) any real or personal property which is part of GBC's Collateral or in which GBC has an interest; (c) Execute on behalf of Borrower, any invoices relating to any Receivable, any draft against any Account Debtor and any notice to any Account Debtor, any proof of claim in bankruptcy, any Notice of Lien, claim of mechanic's, materialman's or other lien, or assignment or satisfaction of mechanic's, materialman's or other lien; (d) Take control in any manner of any cash or non-cash items of payment or proceeds of Collateral; endorse the name of Borrower upon any instruments, or documents, evidence of payment or Collateral that may come into GBC's possession; (e) Endorse all checks and other forms of remittances received by GBC; (f) Pay, contest or settle any lien, charge, encumbrance, security interest and adverse claim in or to any of the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; (g) Grant extensions of time to pay, compromise claims and settle Receivables and General Intangibles for less than face value and execute all releases and other documents in connection therewith; (h) Pay any sums required on account of Borrower's taxes or to secure the release of any liens therefor, or both; (i) Settle and adjust, and give releases of, any insurance claim that relates to any of the Collateral and obtain payment therefor; (j) Instruct any third party having custody or control of any books or records belonging to, or relating to, Borrower to give GBC the same rights of access and other rights with respect thereto as GBC has under this Agreement; and (k) Take any action or pay any sum required of Borrower pursuant to this Agreement and any other present or future agreements. Any and all reasonable sums paid and any and all reasonable costs, expenses, liabilities, obligations and reasonable attorneys' fees incurred by GBC with respect to the foregoing shall be added to and become part of the Obligations, shall be payable on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations. In no event shall GBC's rights under the foregoing power of attorney or any of GBC's other rights under this Agreement be deemed to indicate that GBC is in control of the business, management or properties of Borrower. *

*GBC SHALL GIVE BORROWER WRITTEN NOTICE OF THE EXERCISE OF ANY RIGHTS UNDER THE FOREGOING POWER OF ATTORNEY PRIOR TO, CONCURRENTLY WITH, OR PROMPTLY FOLLOWING SUCH EXERCISE

7.5 APPLICATION OF PROCEEDS. All proceeds realized as the result of any sale or other disposition of the Collateral shall be applied by GBC first to the reasonable costs, expenses, liabilities, obligations and attorneys' fees incurred by GBC in the exercise of its rights under this Agreement, second to the interest due upon any of the Obligations, and third to the principal of the

Obligations, in such order as GBC shall determine in its sole discretion. Any surplus shall be paid to Borrower or other persons legally entitled thereto; Borrower shall remain liable to GBC for any deficiency. If GBC, in its sole discretion, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, GBC shall have the option, exercisable at any time, in its sole discretion, of either reducing the Obligations by the principal amount of purchase price or deferring the reduction of the Obligations until the actual receipt by GBC of the cash therefor.

7.6 REMEDIES CUMULATIVE. In addition to the rights and remedies set forth in this Agreement, GBC shall have all the other rights and remedies accorded a secured party under the California Uniform Commercial Code and under all other applicable laws, and under any other instrument or agreement now or in the future entered into between GBC and Borrower, and all of such rights and remedies are cumulative and none is exclusive. Exercise or partial exercise by GBC of one or more of its rights or remedies shall not be deemed an election, nor bar GBC from subsequent exercise or partial exercise of any other rights or remedies. The failure or delay of GBC to exercise any rights or remedies shall not operate as a waiver thereof, but all rights and remedies shall continue in full force and effect until all of the Obligations have been fully paid and performed.

8. DEFINITIONS. As used in this Agreement, the following terms have the following meanings:

"ACCOUNT DEBTOR" means the obligor on a receivable.

"AFFILIATE" means, with respect to any person, a relative, partner, shareholder, director, officer, or employee of such person, or any parent or subsidiary of such person, or any person controlling, controlled by or under common control with such person.

"AGREEMENT" and "THIS AGREEMENT" means this loan and security agreement and all modifications and amendments thereto, extensions thereof, and replacements therefor.

"BUSINESS DAY" means a day on which * open for business.

*BANKS IN LOS ANGELES, CALIFORNIA ARE

"CODE" means the Uniform Commercial Code as adopted and in effect in the State of California from time to time.

"COLLATERAL" has the meaning set forth in Section 2.1 above.

"DEFAULT" means any event which with notice or passage of time or both, would constitute an Event of Default.

"DEPOSIT ACCOUNT" has the meaning set forth in Section 9105 of the Code.

"ELIGIBLE RECEIVABLES" *

*HAS THE MEANING SET FORTH ON THE SCHEDULE.

"EQUIPMENT" means all of Borrower's present and hereafter acquired machinery, molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dyes, jigs, goods and other tangible personal property (other than Inventory) of every kind and description used in Borrower's operations or owned by Borrower and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"EVENT OF DEFAULT" means any of the events set forth in Section 7.1 of this Agreement.

"GENERAL INTANGIBLES" means all general intangibles of Borrower, whether now owned or hereafter created or acquired by Borrower, including, without limitation, all choses in action, causes of action, corporate or other business records, Deposit Accounts, inventions, designs, drawings, blueprints, patents, patent applications, trademarks and the goodwill of the business symbolized thereby, names, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation

presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against GBC, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including life insurance, key man insurance, credit insurance, liability insurance, property insurance and other insurance), tax refunds and claims, computer programs, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables).

"INVENTORY" means all of Borrower's now owned and hereafter acquired goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease (including all raw materials, work in process, finished goods and goods in transit), and all materials and supplies of every kind, nature and description which are or might be used or consumed in Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all warehouse receipts, documents of title and other documents representing any of the foregoing.

"LIBOR RATE" means (i) the one-month London Interbank Offered Rate for deposits in U.S. dollars, as shown each day in The Wall Street Journal (Eastern Edition) under the caption "Money Rates - London Interbank Offered Rates (LIBOR)"; or (ii) if the Wall Street Journal does not publish such rate, the offered one-month rate for deposits in U.S. dollars which appears on the Reuters Screen LIBO Page as of 10:00 a.m., New York time, each day, PROVIDED that if at least two rates appear on the Reuters Screen LIBO Page on any day, the "LIBOR Rate" for such day shall be the arithmetic mean of such rates; or (iii) if the Wall Street Journal does not publish such rate on a particular day and no such rate appears on the Reuters Screen LIBO Page on such day, the rate per annum at which deposits in U.S. dollars are offered to the principal London office of The Chase Manhattan Bank, N.A. in the London interbank market at approximately 11:00 A.M., London time, on such day in an amount approximately equal to the outstanding principal amount of the Loans, for a period of one month, in each of the foregoing cases as determined in good faith by GBC, which determination shall be conclusive absent manifest error.

"OBLIGATIONS" means all present and future Loans, advances, debts, liabilities, obligations, guaranties, covenants, duties and indebtedness at any time owing by Borrower to GBC, whether evidenced by this Agreement or any note or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by GBC in Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney's fees, expert witness fees, audit fees, letter of credit fees, loan fees, termination fees, minimum interest charges and any other sums chargeable to Borrower under this Agreement or under any other present or future instrument or agreement between Borrower and GBC.

"PERMITTED LIENS" means the following: (i) purchase money security interests in specific items of Equipment; (ii) leases of specific items of Equipment; (iii) liens for taxes not yet payable*; (iv) additional security interests and liens which are subordinate to the security interest in favor of GBC and are consented to in writing by GBC (which consent shall not be unreasonably withheld); (v) security interests being terminated substantially concurrently with this Agreement; (vi) liens of materialmen, mechanics, warehousemen, carriers, or other similar liens arising in the ordinary course of business and securing obligations which are not delinquent; (vii) liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by liens of the type described above in clauses (i) or (ii) above, provided that any extension, renewal or replacement lien is limited to the property encumbered by the existing lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; (viii) Liens in favor of customs and revenue authorities which secure payment of customs duties in connection with the importation of goods**. GBC will have the right to require, as a condition to its consent under subparagraph (iv) above, that the holder of the additional security interest or lien sign an

intercreditor agreement on GBC's then standard form, acknowledge that the security interest is subordinate to the security interest in favor of GBC, and agree not to take any action to enforce its subordinate security interest so long as any Obligations remain outstanding, and that Borrower agree that any uncured default in any obligation secured by the subordinate security interest shall also constitute an Event of Default under this Agreement.

*OR WHICH ARE BEING CONTESTED IN GOOD FAITH AND AS TO WHICH NO LIEN HAS ARISEN

**(IX) LIENS IN EXISTENCE ON THE DATE HEREOF ON SPECIFIC ITEMS OF EQUIPMENT, (X) PLEDGES OR DEPOSITS IN RESPECT OF WORKERS' COMPENSATION, UNEMPLOYMENT INSURANCE AND OTHER SOCIAL SECURITY LEGISLATION

"PERSON" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated

organization, association, corporation, government, or any agency or political division thereof, or any other entity.

"RECEIVABLES" means all of Borrower's now owned and hereafter acquired accounts (whether or not earned by performance), letters of credit, contract rights, chattel paper, instruments, securities, documents and all other forms of obligations at any time owing to Borrower, all guaranties and other security therefor, all merchandise returned to or repossessed by Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

OTHER TERMS. All accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with generally accepted accounting principles, consistently applied. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

9. GENERAL PROVISIONS.

9.1 INTEREST COMPUTATION. In computing interest on the Obligations, all checks, wire transfers and other items of payment received by GBC (including proceeds of Receivables and payment of the Obligations in full) shall be deemed applied by GBC on account of the Obligations three Business Days after receipt by GBC of immediately available funds. GBC shall not, however, be required to credit Borrower's account for the amount of any item of payment which is unsatisfactory to GBC in its discretion, and GBC may charge Borrower's Loan account for the amount of any item of payment which is returned to GBC unpaid.

9.2 APPLICATION OF PAYMENTS. All payments with respect to the Obligations may be applied, and in GBC's sole discretion reversed and re-applied, to the Obligations, in such order and manner as GBC shall determine in its sole discretion*.

*EXCEPT THAT PAYMENTS WILL NOT BE APPLIED TO PAYMENTS ON THE TERM LOAN OR EQUIPMENT LOANS WHICH ARE NOT YET DUE, WITHOUT BORROWER'S PRIOR WRITTEN CONSENT (EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED HEREIN IN THE CASE OF A SALE OF EQUIPMENT).

9.3 CHARGES TO ACCOUNT. GBC may, in its discretion, require that Borrower pay monetary Obligations in cash to GBC, or charge them to Borrower's Loan account, in which event they will bear interest at the same rate applicable to the Loans.

9.4 MONTHLY ACCOUNTINGS. GBC shall provide Borrower monthly with an account of advances, charges, expenses and payments made pursuant to this Agreement. Such account shall be deemed correct, accurate and binding on Borrower and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by GBC), unless Borrower notifies GBC in writing to the contrary within sixty days after each account is rendered, describing the nature of any alleged errors or admissions.

9.5 NOTICES. All notices to be given under this Agreement shall be in writing and shall be given either personally or by reputable private delivery service or by regular first-class mail, or certified mail return receipt requested, addressed to GBC or Borrower at the addresses shown in the heading to

this Agreement, or at any other address designated in writing by one party to the other party. All notices shall be deemed to have been given upon delivery in the case of notices personally delivered, or at the expiration of one business day following delivery to the private delivery service, or two business days following the deposit thereof in the United States mail, with postage prepaid.

9.6 SEVERABILITY. Should any provision of this Agreement be held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect the remainder of this Agreement, which shall continue in full force and effect.

9.7 INTEGRATION. This Agreement and such other written agreements, documents and instruments as may be executed in connection herewith are the final, entire and complete agreement between Borrower and GBC and supersede all prior and contemporaneous negotiations and oral representations and agreements, all of which are merged and integrated in this Agreement. THERE ARE NO ORAL UNDERSTANDINGS, REPRESENTATIONS OR AGREEMENTS BETWEEN THE PARTIES WHICH ARE NOT SET FORTH IN THIS AGREEMENT OR IN OTHER WRITTEN AGREEMENTS SIGNED BY THE PARTIES IN CONNECTION HEREWITH.

9.8 WAIVERS. The failure of GBC at any time or times to require Borrower to strictly comply with any of the provisions of this Agreement or any other present or future agreement between Borrower and GBC shall not waive or diminish any right of GBC later to demand and receive strict compliance therewith. Any waiver of any default shall not waive or affect any other default, whether prior or subsequent, and whether or not similar. None of the provisions of this Agreement or any other agreement now or in the future executed by Borrower and delivered to GBC shall be deemed to have been waived by any act or knowledge of GBC or its agents or employees, but only by a specific written waiver signed by an authorized officer of GBC and delivered to Borrower. Borrower waives demand, protest, notice of protest and notice of default or dishonor, notice of payment and nonpayment, release, compromise, settlement, extension or renewal of any commercial paper, instrument, account, General Intangible, document or guaranty at any time held by GBC on which Borrower is or may in any way be liable, and notice of any action taken by GBC, unless expressly required by this Agreement.

9.9 AMENDMENT. The terms and provisions of this Agreement may not be waived or amended, except in a writing executed by Borrower and a duly authorized officer of GBC.

9.10 TIME OF ESSENCE. Time is of the essence in the performance by Borrower of each and every obligation under this Agreement.

9.11 ATTORNEYS FEES AND COSTS. Borrower shall reimburse GBC for all reasonable attorneys' fees and all filing, recording, search, title insurance, appraisal, audit, and other reasonable costs incurred by GBC, pursuant to, or in connection with, or relating to this Agreement (whether or not a lawsuit is filed), including, but not limited to, any reasonable attorneys' fees and costs GBC incurs in order to do the following: prepare and negotiate this Agreement and the documents relating to this Agreement; obtain legal advice in connection with this Agreement or Borrower; enforce, or seek to enforce, any of its rights; prosecute actions against, or defend actions by, Account Debtors; commence, intervene in, or defend any action or proceeding; initiate any complaint to be relieved of the automatic stay in bankruptcy; file or prosecute any probate claim, bankruptcy claim, third-party claim, or other claim; examine, audit, copy, and inspect any of the Collateral or any of Borrower's books and records; protect, obtain possession of, lease, dispose of, or otherwise enforce GBC's security interest in, the Collateral; and otherwise represent GBC in any litigation relating to Borrower. If either GBC or Borrower files any lawsuit against the other predicated on a breach of this Agreement, the prevailing party in such action shall be entitled to recover its reasonable costs and attorneys' fees, including (but not limited to) reasonable attorneys' fees and costs incurred in the enforcement of, execution upon or defense of any order, decree, award or judgment. All attorneys' fees and costs to which GBC may be entitled pursuant to this Paragraph shall immediately become part of Borrower's Obligations, shall be due on demand, and shall bear interest at a rate equal to the highest interest rate applicable to any of the Obligations.

9.12 BENEFIT OF AGREEMENT. The provisions of this Agreement shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, beneficiaries and representatives of Borrower and GBC; provided, however,

that Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of GBC, and any prohibited assignment shall be void. No consent by GBC to any assignment shall release Borrower from its liability for the Obligations.

9.13 JOINT AND SEVERAL LIABILITY. If Borrower consists of more than one Person, their liability shall be joint and several, and the compromise of any claim with, or the release of, any Borrower shall not constitute a compromise with, or a release of, any other Borrower.

9.14 LIMITATION OF ACTIONS. Any claim or cause of action by Borrower against GBC, its directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Loan Agreement, or any other present or future document or agreement, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause or thing whatsoever, occurred, done, omitted or suffered to be done by GBC, its directors, officers, employees, agents, accountants or attorneys, shall be barred unless asserted by Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by the filing of a complaint within * after the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based, and the service of a summons and complaint on an officer of GBC, or on any other person authorized to accept service on behalf of GBC, within thirty (30) days thereafter. Borrower agrees that such ** period is a reasonable and sufficient time for Borrower to investigate and act upon any such claim or cause of action. The ** period provided herein shall not be waived, tolled, or extended except by the written consent of GBC in its sole discretion. This provision shall survive any termination of this Loan Agreement or any other present or future agreement.

*TWO YEARS **TWO-YEAR

9.15 PARAGRAPH HEADINGS; CONSTRUCTION. Paragraph headings are only used in this Agreement for convenience. Borrower and GBC acknowledge that the headings may not describe completely the subject matter of the applicable paragraph, and the headings shall not be used in any manner to construe, limit, define or interpret any term or provision of this Agreement. The term "including", whenever used in this Agreement, shall mean "including (but not limited to)". This Agreement has been fully reviewed and negotiated between the parties and no uncertainty or ambiguity in any term or provision of this Agreement shall be construed strictly against GBC or Borrower under any rule of construction or otherwise.

9.16 GOVERNING LAW; JURISDICTION; VENUE. This Agreement and all acts and transactions hereunder and all rights and obligations of GBC and Borrower shall be governed by the laws of the State of California. As a material part of the consideration to GBC to enter into this Agreement, Borrower (i) agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at GBC's option, be litigated in courts located within California, and that the exclusive venue therefor shall be Los Angeles County; (ii) consents to the jurisdiction and venue of any such court and consents to service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (iii) waives any and all rights Borrower may have to

object to the jurisdiction of any such court, or to transfer or change the venue of any such action or proceeding.

9.17 MUTUAL WAIVER OF JURY TRIAL. BORROWER AND GBC EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO, THIS AGREEMENT OR ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN GBC AND BORROWER, OR ANY CONDUCT, ACTS OR OMISSIONS OF GBC OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH GBC OR BORROWER, IN ALL OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

BORROWER:

QAD, INC.

BY

PRESIDENT OR VICE PRESIDENT

BY

SECRETARY OR ASS'T SECRETARY

GBC:

GREYROCK BUSINESS CREDIT,
A DIVISION OF NATIONSCREDIT COMMERCIAL CORPORATION

BY

TITLE

SCHEDULE TO

LOAN AND SECURITY AGREEMENT

BORROWER: QAD, INC.
ADDRESS: 6450 VIA REAL
CARPINTERIA, CALIFORNIA 93013

DATE: JULY 3, 1996

This Schedule is an integral part of the Loan and Security Agreement between GREYROCK BUSINESS CREDIT, A DIVISION OF NATIONSCREDIT COMMERCIAL CORPORATION ("GBC") and the above-borrower ("Borrower") of even date.

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1. CREDIT LIMIT (Section 1.1): An amount not to exceed the lesser of: $20,000,000 at any one time outstanding; or the sum of the following:

(a) RECEIVABLE LOANS. Loans (the "Receivable Loans") up to the sum of the following percentages of Borrower's Eligible Receivables (as defined below):

(i) 80% of the net amount of eligible U.S. accounts; plus

(ii) The lesser of (A) 90% of the net amount of eligible Hong Kong accounts which are subject to a Guarantee in form and substance satisfactory to GBC by the Export-Import Bank of the United States, or (B) $2,000,000; plus

(iii) The lesser of 65% of the net amount of eligible Netherlands accounts or $2,000,000; plus

(iv) The lesser of 65% of the net amount of eligible United Kingdom accounts or $2,000,000; plus

(v) The lesser of 65% of the net amount of eligible French accounts or $1,000,000; plus

(vi) The lesser of 65% of the net amount of eligible German accounts or $2,000,000; plus

(vii) The lesser of 65% of the net amount of eligible Australian accounts or $2,000,000.

(viii) The lesser of 65% of the net amount of eligible Japanese accounts or $2,000,000.

(ix) The lesser of 65% of the net amount of eligible Swedish accounts or $1,000,000.

References above to countries refer to Receivables billed from and payable to offices in such countries, even if bills are sent to, and payments are remitted from, other countries. Currencies in which Receivables are denominated shall be acceptable to GBC in its reasonable business judgment. Borrower's subsidiaries holding the Receivables referred to above in clauses (iii)-(ix) shall provide cross-corporate guarantees and first-priority security interests in such accounts and other assets prior to the making of any Loans with respect to the same.

(b) TERM LOAN. A Loan (the "Term Loan") in the amount of $4,000,000, which shall be repayable in 60 equal monthly principal installments of $66,666 per month, plus interest at the rate provided below, on the terms set forth in the Secured Promissory Note of even date;

(c) EQUIPMENT LOANS. Loans (the "Equipment Loans") in a total amount not to exceed $4,000,000, for the purchase by Borrower of new Equipment acceptable to GBC, in an amount not to exceed 80% of the net purchase price of the Equipment. The net purchase price of Equipment means the purchase price thereof, as shown on the applicable invoice, net of all charges for taxes, freight, delivery, insurance, set-up, training, manuals, fees, service charges and other similar items. Equipment Loans shall be made in disbursements of not less than $500,000 each. Each Equipment Loan shall be repaid by the Borrower to GBC in 36 equal monthly payments of principal, commencing on the first day of the first month after the date the Equipment Loan was made and continuing until the earlier of the date the Equipment Loan has been paid in full or the date this Agreement terminates by its terms or is terminated, as provided in Sections 6.1-6.2 above, at which date the entire unpaid principal balance of the Equipment Loans, plus all accrued and unpaid interest thereon, shall be due and payable.

"Eligible Receivables" shall mean Receivables arising in the ordinary course of Borrower's business from the sale of goods or rendition of services, which GBC, in its reasonable business judgment, shall deem eligible for borrowing, based on such considerations as GBC may from time to time deem appropriate. Without limiting the fact that the determination of which Receivables are eligible for borrowing is a matter of GBC's reasonable discretion, the following (the "MINIMUM ELIGIBILITY REQUIREMENTS") are

the minimum requirements for a Receivable to be an Eligible Receivable: (i) the Receivable must not be outstanding for more than 120 days from its invoice date, (ii) the Receivable must not represent progress billings, (iii) the Receivable must not be subject to any contingencies (including Receivables arising from sales on consignment, guaranteed sale or other terms pursuant to which payment by the Account Debtor may be conditional), (iv) the Receivable must not be owing from an Account Debtor with whom the Borrower has any dispute (whether or not relating to the particular Receivable), (v) the Receivable must not be owing from an Affiliate of Borrower, (vi) the Receivable must not be owing from an Account Debtor which is subject to any insolvency or bankruptcy proceeding, or whose financial condition is not acceptable to GBC, or which, fails or goes out of a material portion of its business, (vii) the Receivable must not be owing from the United States or any department, agency or instrumentality thereof (unless there has been compliance, to GBC's satisfaction, with the United States Assignment of Claims Act), (viii) the Receivable must not be owing from an Account Debtor to whom Borrower is or may be liable for goods purchased from such Account Debtor or otherwise. If more than 50% of the Receivables owing from an Account Debtor are outstanding more than 120 days from their invoice date (without regard to unapplied credits) or are otherwise not Eligible Receivables, then all Receivables owing from that Account Debtor will be deemed ineligible for borrowing. GBC may, from time to time, in its discretion, revise

the Minimum Eligibility Requirements, upon written notice to the Borrower. Notwithstanding clauses (ii)-(iii) above, Receivables for maintenance with respect to which future maintenance on the part of the Borrower is required, but which would otherwise be Eligible Receivables, will continue to be Eligible Receivables notwithstanding such required future performance on the part of Borrower.

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2. INTEREST.

INTEREST RATE (Section 1.2):

The interest rate in effect throughout each calendar month during the term of this Agreement shall be the highest "LIBOR Rate" in effect during such month, plus 4.875% per annum, provided that the interest rate in effect in each month shall not be less than 8% per annum, and provided that the interest charged for each month for all Obligations shall be a minimum of $20,000, regardless of the amount of the Obligations outstanding. Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "LIBOR Rate" has the meaning set forth in Section 8 above.

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3. FEES (Section 1.3/Section 6.2):

Loan Fee:	$200,000, payable concurrently herewith.
Termination Fee:	NONE
NSF Check Charge:	$15.00 per item.
Wire Transfers:	$15.00 per transfer.

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4. MATURITY DATE (Section 6.1): JULY 31, 1997, subject to automatic renewal as provided in Section 6.1 above, and early termination as provided in Section 6.2 above.

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5. REPORTING. (Section 5.2):

Borrower shall provide GBC with the following:

1. Annual financial statements, as soon as available, and in any event within 120 days following the end of Borrower's fiscal year, certified by independent certified public accountants acceptable to GBC.

2. Quarterly unaudited financial statements, as soon

as available, and in any event within 30 days after the end of each fiscal quarter of Borrower.

3. Monthly Receivable agings, aged by invoice date, within 15 days after the end of each month.

4. Monthly accounts payable agings, aged by invoice date within 15 days after the end of each month.

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6. BORROWER INFORMATION:

PRIOR NAMES OF BORROWER (Section 3.2): QAD, INC.

PRIOR TRADE NAMES OF BORROWER (Section 3.2):

EXISTING TRADE NAMES OF BORROWER (Section 3.2):

OTHER LOCATIONS AND ADDRESSES (Section 3.3): See Exhibit A hereto.

MATERIAL ADVERSE LITIGATION (Section 3.10): See Exhibit B hereto.

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7. OTHER PROVISIONS:

1. APPRAISAL. Borrower shall provide appraisals to GBC with respect to the real property commonly known as 2111 Ortega Hill Road, Summerland, California (54,600 sq. ft. building) and Twin Pine Ranch, 6390 Via Real, Carpenteria, California (approx 34.42 acres), prepared by an appraiser specified by GBC in accordance with FIRREA guidelines and requirements, which appraisals shall be completed and delivered to GBC within 60 days after the date hereof and shall be satisfactory to GBC.

Borrower:

QAD, INC.

By

President or Vice President

By

Secretary or Ass't Secretary

GBC:

GREYROCK BUSINESS CREDIT,
a Division of NationsCredit Commercial Corporation

By

Title

[The full text of Exhibit 3a has been omitted. Exhibit 3a contains the addresses and contact information for the Company's chief executive office and each of its and its subsidiaries' other offices.]

LETTER AGREEMENT

July 3, 1996

QAD, Inc.
6450 Via Real
Carpinteria, California

Gentlemen:

Reference is made to the Loan and Security Agreement between us of even date (the "Loan Agreement") and the documents and agreements relating thereto (collectively, the "Loan Documents").

This will confirm our agreement to modify Section 5.5 clause (ix) to read as follows: "(ix) guarantee or otherwise become liable with respect to the obligations of another party or entity, except for guarantees of loans to employees in good-faith arm's length transactions in the ordinary course of business; . . .".

This will also confirm our agreement that your escrowing of source code relating to your software, for the benefit of your customers, in the ordinary course of business and in accordance with normal industry practice, is not prohibited by the Loan Agreement or the other Loan Documents.

This Letter Agreement, the Loan Agreement, and the other Loan Documents set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement and the other Loan Documents shall continue in full force and effect and the same are hereby ratified and confirmed.

Sincerely yours,

GREYROCK BUSINESS CREDIT,
a Division of NationsCredit Commercial Corporation

By

Title

Accepted and agreed:

QAD, INC.

By

Title

July 5, 1996

Greyrock Business Credit,
a Division of NationsCredit Commercial Corporation
300 N. Continental Blvd. Suite 200
El Segundo, CA 90245

Gentlemen:

Reference is made to the Loan and Security Agreement between us (the "Loan Agreement") and the documents and agreements relating thereto (collectively, the "Loan Documents").

Based on the environmental reports we provided to you with respect to the real property subject to the Deeds of Trust in your favor, and the analysis thereof by your environmental consultant, it appears that certain remedial environmental work is needed. You have also requested that we provide you with a Hazardous Substances Indemnity Agreement on your standard form.

In order not to hold up the closing of the Loan pursuant to the Loan Documents, this will confirm that you may withhold a reserve, from the Loans that would otherwise be available to us under the Loan Documents, in the amount of $65,000, which reserve will be held until we have completed the remedial work recommended by your consultant. We will also provide you with the Hazardous Substances Indemnity Agreement within ten days after the date hereof, with any changes thereto as you and we may negotiate in good faith.

Sincerely yours,

QAD, INC.

By

Title

Accepted and agreed:

GREYROCK BUSINESS CREDIT,
a Division of NationsCredit Commercial Corporation

By

Title

July 5, 1996

Greyrock Business Credit,
a Division of NationsCredit Commercial Corporation
300 N. Continental Blvd. Suite 200
El Segundo, CA 90245

Gentlemen:

Reference is made to the Loan and Security Agreement between us (the "Loan Agreement") and the documents and agreements relating thereto (collectively, the "Loan Documents").

Reference is also made to the Indemnity Agreement (the "Indemnity Agreement") which, at our request, you are concurrently executing and delivering to Union Bank of California ("Bank").

This will confirm our agreement to indemnify and hold you harmless from and against any and all losses, liabilities, demands, obligations, actions, costs and expenses (including, without limitation, reasonable attorneys' fees), which you may sustain or incur, based upon, arising out of, or relating to the Indemnity Agreement.

This will also confirm our agreement (i) not to permit any overdrafts to occur in the Deposit Account (as defined in the Indemnity Agreement), (ii) to furnish good funds to the Bank to offset against any returned items deposited in the Deposit Account upon written notice thereof from the Bank, and (iii) to cease utilizing the Deposit Account on and after July 15, 1996.

This will also confirm our approval of the Demand for Payoff of the Bank dated July 3, 1996 in the amount of $12,796,940.50, and we request that you disburse, from the Loans being made to us pursuant to the Loan Documents, said sum in accordance with the instructions of Union Bank (which disbursement may be through the title company).

Sincerely yours,

QAD, INC.

By

Title

Accepted and agreed:

GREYROCK BUSINESS CREDIT,
a Division of NationsCredit Commercial Corporation

By

Title

[LOGO]

SECURED PROMISSORY NOTE

$4,000,000 Los Angeles, California JULY 3, 1996

FOR VALUE RECEIVED, the undersigned (the "Borrower") promises to pay to the order of GREYROCK BUSINESS CREDIT ("GBC"), at 300 North Continental Blvd., Suite 200, El Segundo, California 90245 , or at such other address as the holder of this Note shall direct, the principal sum of $4,000,000, payable $66,666 principal per month, plus interest as hereinafter provided, commencing on AUGUST 1, 1996 and continuing on the last day of each succeeding month, until the earlier of the following dates (the "Maturity Date"): (i) JULY 1, 2001, or (ii) the date the Loan and Security Agreement between the Borrower and GBC dated JULY 3, 1996 (the "Loan Agreement") terminates by its terms or is terminated by either party in accordance with its terms. On the Maturity Date the entire remaining unpaid principal balance of this Note, plus any and all accrued and unpaid interest, shall be due and payable.

This Note shall bear interest on the unpaid principal balance hereof from time to time outstanding at a rate equal to the following: The interest rate in effect throughout each calendar month during the term of this Note shall be the highest "LIBOR Rate" in effect during such month, plus 4.875% per annum, provided that the interest rate in effect in each month shall not be less than 8% per annum. Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. "LIBOR Rate" has the meaning set forth in the Loan Agreement.

Accrued interest on this Note shall be payable monthly, in addition to the principal payments provided above, commencing on JULY 31, 1996, and continuing on the last day of each succeeding month. Any accrued interest not paid when due shall bear interest at the same rate as the principal hereunder.

Principal of and interest on this Note shall be payable in lawful money of the United States of America. If a payment hereunder becomes due and payable on a Saturday, Sunday or legal holiday, the due date thereof shall be extended to the next succeeding business day, and interest shall be payable thereon during such extension.

In the event any payment of principal or interest on this Note is not paid in full when due, or if any event of default occurs hereunder, under the Loan Agreement or under any other present or future instrument, document, or agreement between the Borrower and GBC, which is not cured within any applicable cure period (collectively, "Events of Default"), GBC may, at its option, at any time thereafter, declare the entire unpaid principal balance of this Note plus all accrued interest to be immediately due and payable, without notice or demand. Without limiting the foregoing, and without limiting GBC's other rights and remedies, in the event any installment of principal or interest is not paid in full on, or within five days after, the date due, the Borrower agrees that it would be impracticable or extremely difficult to fix the actual damages resulting therefrom to GBC, and therefore the Borrower agrees immediately to pay to GBC an amount equal to 5% of the installment (or portion thereof) not paid, as liquidated damages, to compensate GBC for the internal administrative expenses in administering the default. The acceptance of any installment of principal or interest by GBC after the time when it becomes due, as herein specified, shall not be held to establish a custom, or to waive any rights of GBC to enforce payment when due of any further installments or any other rights, nor shall any failure or delay to exercise

any rights be held to waive the same. Without limiting GBC's other rights and remedies, upon an occurrence of an Event of Default, the interest rate hereunder shall increase by an additional 2% per annum until such Event of Default has been cured.

All payments hereunder are to be applied first to costs and fees referred to hereunder, second to the payment of accrued interest and the remaining balance to the payment of principal. Any principal prepayment hereunder shall be applied against principal payments in the inverse order of maturity. GBC shall have the continuing and exclusive right to apply or reverse and reapply any and all payments hereunder.

The Borrower agrees to pay all costs and expenses (including without limitation attorney's fees) incurred by GBC in connection with or related to this Note, or its enforcement, whether or not suit be brought. The Borrower hereby waives presentment, demand for payment, notice of dishonor, notice of nonpayment, protest, notice of protest, and any and all other notices and demands in connection with the delivery, acceptance, performance, default, or enforcement of this Note, and the Borrower hereby waives the benefits of any statute of limitations with respect to any action to enforce, or otherwise related to, this Note.

This Note is secured by the Loan Agreement and all other present and future security agreements between the Borrower and GBC. Nothing herein shall be deemed to limit any of the terms or provisions of the Loan Agreement or any other present or future document, instrument or agreement, between the Borrower and GBC, and all of GBC's rights and remedies hereunder and thereunder are cumulative.

This Note is also secured by, among other things, that certain Deed of Trust of even date executed by Borrower in favor of GBC (the "Trust Deed"), and this Note is subject to all the terms and conditions thereof including without limitation the remedies specified therein. The Trust Deed includes the following provision:

> "11. EVENTS OF DEFAULT; ACCELERATION. In addition to all other rights and remedies of Beneficiary set forth in this Deed of Trust, or which it otherwise has, under the other Loan Documents or any security or other agreement heretofore, now or hereafter entered into between Trustor and Beneficiary, or at law or in equity, all of the Secured Obligations shall immediately become due and payable, irrespective of the maturity dates expressed in any note or agreement evidencing the same, at the option of the Beneficiary, and without demand or notice, upon the happening of any one or more of the following events, any one of which shall constitute a default and event of default hereunder: (i) any default or Event of Default shall occur under, or as defined in, any of the Loan Documents; or (ii) any sale, lease (except for tenant leases entered into in the ordinary course of business for a period of not more than 3 years), transfer, or encumbrance of the Property or any portion thereof or interest therein or any personal property in which Beneficiary has a security interest (other than a sale of obsolete or worn out personal property which is being replaced), or any agreement to do any of the foregoing, without the prior written consent of Beneficiary being first obtained; or (iii) any divestment of the title of any Trustor to the Property, or any part thereof, or any interest therein, in any manner whatsoever, whether voluntary or involuntary; or (iv) any of the Property shall be subject to any abatement proceeding. Upon presentation of a signed statement by Beneficiary setting forth facts showing that one or more of the foregoing events has occurred, Trustee is authorized to accept as true and conclusive such statement and all facts contained therein and to act on such statement in such manner as it deems appropriate. No specification herein of an event which constitutes a default and event of default hereunder shall limit any provision of any other Loan Document specifying that an event is a default or event of default thereunder, whether or not the events so specified are similar."

In the event any one or more of the provisions of this Note shall for any reason be held to be invalid, illegal or unenforceable, the same shall not affect any other provision of this Note and the remaining provisions of this Note shall remain in full force and effect.

No waiver or modification of any of the terms or provisions of this Note shall be valid or binding unless set forth in a writing signed by a duly

authorized officer of GBC, and then only to the extent therein specifically set forth. If more than one person executes this Note, their obligations hereunder shall be joint and several.

GBC AND BORROWER EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS NOTE; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN GBC AND BORROWER; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF GBC OR BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH GBC OR BORROWER; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

This Note is payable in, and shall be governed by the laws of, the State of California.

QAD, INC.

By

President

By

Secretary

LEVY, SMALL & LALLAS
815 Moraga Drive
Los Angeles, California 90049
Telephone (310) 471-3000
Telecopier (310) 471-7990

TRANSMITTAL NOTE

TRADEMARK SECURITY AGREEMENT

This TRADEMARK SECURITY AGREEMENT ("Agreement"), dated as of July 3, 1996, is entered into between QAD, INC., a California corporation ("Grantor"), which has a mailing address at 6450 Via Real, Carpinteria, CA 93013, and GREYROCK BUSINESS CREDIT, a Division of NationsCredit Commercial Corporation ("GBC"), which has a mailing address at 300 North Continental Blvd., Suite 200, El Segundo, California 90245.

RECITALS

A. Grantor and GBC are, contemporaneously herewith, entering into that certain Loan and Security Agreement ("Loan Agreement") and other instruments, documents and agreements contemplated thereby or related thereto (collectively, together with the Loan Agreement, the "Loan Documents"); and

B. Grantor is the owner of certain intellectual property, identified below, in which Grantor is granting a security interest to GBC.

NOW THEREFORE, in consideration of the mutual promises, covenants, conditions, representations, and warranties hereinafter set forth and for other good and valuable consideration, the parties hereto mutually agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 DEFINITIONS. The following terms, as used in this Agreement, have the following meanings:

"CODE" means the California Uniform Commercial Code, as amended and supplemented from time to time, and any successor statute.

"COLLATERAL" means all of the following, whether now owned or hereafter acquired:

(i) Each of the trademarks and rights and interest which are capable of being protected as trademarks (including trademarks, service marks, designs, logos, indicia, tradenames, corporate names, company names, business names, fictitious business names, trade styles, and other source or business identifiers, and applications pertaining thereto), which are presently, or in the future may be, owned, created, acquired, or used (whether pursuant to a license or otherwise) by Grantor, in whole or in part, and all trademark rights with respect thereto throughout the world, including all proceeds thereof (including license royalties and proceeds of infringement suits), and rights to renew and extend such trademarks and trademark rights;

(ii) All of Grantor's right to the trademarks and trademark registrations listed on EXHIBIT A attached hereto, as the same may be updated hereafter from time to time;

(iii) All of Grantor's right, title and interest to register trademark claims under any state or federal trademark law or regulation of any foreign country and to apply for, renew, and extend the trademark registrations and trademark rights, the right (without obligation) to sue or bring opposition or cancellation proceedings in the name of Grantor or in the name of GBC for past, present, and future infringements of the trademarks, registrations, or trademark rights and all rights (but not obligations) corresponding thereto in the United States and any foreign country;

(iv) the entire goodwill of or associated with the businesses now or hereafter conducted by Grantor connected with and symbolized by any of the aforementioned properties and assets;

(v) All general intangibles relating to the foregoing and all other intangible intellectual or other similar property of the Grantor of any kind or nature, associated with or arising out of any of the aforementioned properties and assets and not otherwise described above; and

(vi) All products and proceeds of any and all of the foregoing (including, without limitation, license royalties and proceeds of infringement suits) and, to the extent not otherwise included, all payments under insurance, or any indemnity, warranty, or guaranty payable by reason of loss or damage to or otherwise with respect to the Collateral.

"OBLIGATIONS" means all obligations, liabilities, and indebtedness of Grantor to GBC, whether direct, indirect, liquidated, or contingent, and whether arising under this Agreement, the Loan Agreement, any other of the Loan Documents, or otherwise, including all costs and expenses described in Section 9.8 hereof.

1.2 CONSTRUCTION. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, and the term "including" is not limiting. The words "hereof," "herein," "hereby," "hereunder," and other similar terms refer to this Agreement as a whole and not to any particular provision of this Agreement. Any initially capitalized terms used but not defined herein shall have the meaning set forth in the Loan Agreement. Any reference herein to any of the Loan Documents includes any and all alterations, amendments, extensions, modifications, renewals, or supplements thereto or thereof, as applicable. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against GBC or Grantor, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by Grantor, GBC, and their respective counsel, and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of GBC and Grantor.

Headings have been set forth herein for convenience only, and shall not be used in the construction of this Agreement.

2. GRANT OF SECURITY INTEREST.

To secure the complete and timely payment and performance of all Obligations, and without limiting any other security interest Grantor has granted to GBC, Grantor hereby grants, assigns, and conveys to GBC a security interest in Grantor's entire right, title, and interest in and to the Collateral.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS.

Grantor hereby represents, warrants, and covenants that:

3.1 TRADEMARKS. A true and complete schedule setting forth all federal and state trademark registrations owned or controlled by Grantor or licensed to Grantor, together with a summary description and full information in respect of the filing or issuance thereof and expiration dates is set forth on EXHIBIT A.

3.2 VALIDITY; ENFORCEABILITY. Each of the trademarks is valid and enforceable, and Grantor is not presently aware of any past, present, or prospective claim by any third party that any of the trademarks are invalid or unenforceable, or that the use of any trademarks violates the rights of any third person, or of any basis for any such claims.

3.3 TITLE. Grantor is the sole and exclusive owner of the entire and unencumbered right, title, and interest in and to each of the trademarks, and trademark registrations, free and clear of any liens, charges, and encumbrances, including pledges, assignments, licenses, shop rights, and covenants by Grantor not to sue third persons.

3.4 NOTICE. Grantor has used and will continue to use proper statutory notice in connection with its use of each of the trademarks.

3.5 QUALITY. Grantor has used and will continue to use consistent

standards of high quality (which may be consistent with Grantor's past practices) in the manufacture, sale, and delivery of products and services sold or delivered under or in connection with the trademarks, including, to the extent applicable, in the operation and maintenance of its merchandising operations, and will continue to maintain the validity of the trademarks.

3.6 PERFECTION OF SECURITY INTEREST. Except for the filing of a financing statement with the Secretary of State of California and filings with the United States Patent and Trademark Office necessary to perfect the security interests created hereunder, no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either for the grant by Grantor of the security interest hereunder or for the execution, delivery, or performance of this Agreement by Grantor or for the perfection of or the exercise by GBC of its rights hereunder to the Collateral in the United States.

4. AFTER-ACQUIRED TRADEMARK RIGHTS.

If Grantor shall obtain rights to any new trademarks, the provisions of this Agreement shall automatically apply thereto. Grantor shall give prompt notice in writing to GBC with respect to any such new trademarks, or renewal or extension of any trademark registration. Grantor shall bear any expenses incurred in connection with future trademark registrations. Without limiting Grantor's obligation under this Section 4, Grantor authorizes GBC to modify this Agreement by amending EXHIBIT A to include any such new trademark rights. Notwithstanding the foregoing, no failure to so modify this Agreement or amend EXHIBIT A shall in any way affect, invalidate or detract from GBC's continuing security interest in all Collateral, whether or not listed on EXHIBIT A.

5. LITIGATION AND PROCEEDINGS.

Grantor shall commence and diligently prosecute in its own name, as the real party in interest, for its own benefit, and its own expense, such suits, administrative proceedings, or other action for infringement or other damages as are in its reasonable business judgment necessary to protect the Collateral. Grantor shall provide to GBC any information with respect thereto requested by GBC. GBC shall provide at Grantor's expense all necessary cooperation in connection with any such suits, proceedings, or action, including, without limitation, joining as a necessary party. Following Grantor's becoming aware thereof, Grantor shall notify GBC of the institution of, or any adverse determination in, any proceeding in the United States Patent and Trademark Office, or any United States, state, or foreign court regarding Grantor's claim of ownership in any of the trademarks, its right to apply for the same, or its right to keep and maintain such trademark rights.

6. POWER OF ATTORNEY.

Grantor hereby appoints GBC as Grantor's true and lawful attorney, with full power of substitution, to do any or all of the following, in the name, place and stead of Grantor: (a) file this Agreement (or an abstract hereof) or any other document describing GBC's interest in the Collateral with the United States Patent and Trademark Office; (b) execute any modification of this Agreement pursuant to Section 4 of this Agreement; (c) take any action and execute any instrument which GBC may deem necessary or advisable to accomplish the purposes of this Agreement; and (d) following an Event of Default (as defined in the Loan Agreement), (i) endorse Grantor's name on all applications, documents, papers and instruments necessary for GBC to use or maintain the Collateral; (ii) ask, demand, collect, sue for, recover, impound, receive, and give acquittance and receipts for money due or to become due under or in respect of any of the Collateral; (iii) file any claims or take any action or institute any proceedings that GBC may deem necessary or desirable for the collection of any of the Collateral or otherwise enforce GBC's rights with respect to any of the Collateral, and (iv) assign, pledge, convey, or otherwise transfer title in or dispose of the Collateral to any person.

7. RIGHT TO INSPECT.

Grantor grants to GBC and its employees and agents the right to visit Grantor's plants and facilities which manufacture, inspect, or store products sold under any of the trademarks, and to inspect the products and quality control records relating thereto at reasonable times during regular business hours.

8. SPECIFIC REMEDIES.

Upon the occurrence of any Event of Default (as defined in the Loan Agreement), GBC shall have, in addition to, other rights given by law or in this Agreement, the Loan Agreement, or in any other Loan Document, all of the rights and remedies with respect to the Collateral of a secured party under the Code, including the following:

8.1 NOTIFICATION. GBC may notify licensees to make royalty payments on license agreements directly to GBC;

8.2 SALE. GBC may sell or assign the Collateral and associated goodwill at public or private sale for such amounts, and at such time or times as GBC deems advisable. Any requirement of reasonable notice of any disposition of the Collateral shall be satisfied if such notice is sent to Grantor * days prior to such disposition. Grantor shall be credited with the net proceeds of such sale only when they are actually received by GBC, and Grantor shall continue to be liable for any deficiency remaining after the Collateral is sold or collected. If the sale is to be a public sale, GBC shall also give notice of the time and place by publishing a notice one time at least * days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held. To the maximum extent permitted by applicable law, GBC may be the purchaser of any or all of the Collateral and associated goodwill at any public sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any public sale, to use and apply all or any part of the Obligations as a credit on account of the purchase price of any collateral payable by GBC at such sale.

*TEN (10)

9. GENERAL PROVISIONS.

9.1 EFFECTIVENESS. This Agreement shall be binding and deemed effective when executed by Grantor and GBC.

9.2 NOTICES. Except to the extent otherwise provided herein, all notices, demands, and requests that either party is required or elects to give to the other shall be in writing and shall be governed by the notice provisions of the Loan Agreement.

9.3 NO WAIVER. No course of dealing between Grantor and GBC, nor any failure to exercise nor any delay in exercising, on the part of GBC, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan

Agreement or any other agreement by GBC shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by GBC.

9.4 RIGHTS ARE CUMULATIVE. All of GBC's rights and remedies with respect to the Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

9.5 SUCCESSORS. The benefits and burdens of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties; provided that Grantor may not transfer any of the

Collateral or any rights hereunder, without the prior written consent of GBC, except as specifically permitted hereby.

9.6 SEVERABILITY. The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

9.7 ENTIRE AGREEMENT. This Agreement is subject to modification only by a writing signed by the parties, except as provided in Section 4 of this Agreement. To the extent that any provision of this Agreement conflicts with any provision of the Loan Agreement, the provision giving GBC greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to GBC under the Loan Agreement. This Agreement, the Loan Agreement, and the documents relating thereto comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

9.8 FEES AND EXPENSES. Grantor shall pay to GBC on demand all costs and expenses that the GBC pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement, including: (a) reasonable attorneys' and paralegals' fees and disbursements of counsel to GBC; (b) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with this Agreement and the transactions contemplated hereby; (c) costs and expenses of lien and title searches; (d) taxes, fees, and other charges for filing this Agreement at the United States Patent and Trademark Office, or for filing financing statements, and continuations, and other actions to perfect, protect, and continue the security interest created hereunder; (e) sums paid or incurred to pay any amount or take any action required of Grantor under this Agreement that Grantor fails to pay or take; (f) costs and expenses of preserving and protecting the Collateral; and (g) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) paid or incurred to enforce the security interest created hereunder, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of this Agreement, or to defend any claims made or threatened against the GBC arising out of the transactions contemplated hereby (including preparations for the consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of this Agreement or the Loan Documents regarding costs and expenses to be paid by Grantor. The parties agree that reasonable attorneys' and paralegals' fees and costs

incurred in enforcing any judgment are recoverable as a separate item in addition to fees and costs incurred in obtaining the judgment and that the recovery of such attorneys' and paralegals' fees and costs is intended to survive any judgment, and is not to be deemed merged into any judgment.

9.9 INDEMNITY. Grantor shall protect, defend, indemnify, and hold harmless GBC and GBC's assigns from all liabilities, losses, and costs (including without limitation reasonable attorneys' fees) incurred or imposed on GBC relating to the matters in this Agreement.

9.10 FURTHER ASSURANCES. At GBC's request, Grantor shall execute and deliver to GBC any further instruments or documentation, and perform any acts, that may be reasonably necessary or appropriate to implement this Agreement, the Loan Agreement or any other agreement, and the documents relating thereto, including without limitation any instrument or documentation reasonably necessary or appropriate to create, maintain, perfect, or effectuate GBC's security interests in the Collateral.

9.11 RELEASE. At such time as Grantor shall completely satisfy all of the Obligations and the Loan Agreement shall be terminated, GBC shall execute and deliver to Grantor all assignments and other instruments as may be reasonably necessary or proper to terminate GBC's security interest in the Collateral, subject to any disposition of the Collateral which may have been made by GBC pursuant to this Agreement. For the purpose of this Agreement, the Obligations

shall be deemed to continue if Grantor enters into any bankruptcy or similar proceeding at a time when any amount paid to GBC could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.

9.12 GOVERNING LAW. The validity and interpretation of this Agreement and the rights and obligations of the parties shall be governed by the laws of the State of California, excluding its conflict of law rules to the extent such rules would apply the law of another jurisdiction, and the United States. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the state and federal courts located in the County of Los Angeles, State of California or, at the sole option of GBC, in any other court in which GBC shall initiate legal or equitable proceedings and which has subject matter jurisdiction over the matter in controversy. each of Grantor and GBC waives, to the extent permitted under applicable law, any right they may have to assert the doctrine of forum non conveniens or to object to venue to the extent any proceeding is brought in accordance with this Section.

9.13 WAIVER OF RIGHT TO JURY TRIAL. GBC AND GRANTOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN GBC AND GRANTOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF GBC OR GRANTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH GBC OR GRANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

GREYROCK BUSINESS CREDIT, a Division of Greyrock Capital Group Inc.	QAD, Inc.
By _____	By _____
Title _____	Title _____

42,927

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, 1996, before me, _____ _____, Notary Public, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

_____

(Seal)

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, 1996, before me, _____
_____, Notary Public, personally appeared
_____,
personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

_____

(Seal)

EXHIBIT "A"

REGISTERED TRADEMARKS

Trademark	Registration Date	Registration No.
MFG/PRO	12/29/92	1,742,858

PENDING TRADEMARKS

Application - Trademark & Service Mark

qad.inc.	9/2/94	Classes 9, 16, 41, 42
Amendment filed for QAD.INC.	1/30/95	

SECURITY AGREEMENT IN COPYRIGHTED WORKS

This Security Agreement In Copyrighted Works (this "Agreement") is made at Los Angeles, California as of July 3, 1996 by QAD, INC. ("Grantor"), which has a mailing address at 6450 Via Real, Carpinteria, CA 93013, in favor of GREYROCK BUSINESS CREDIT, a Division of NationsCredit Commercial Corporation ("GBC"), which has a mailing address at 300 North Continental Blvd., Suite 200, El Segundo, California 90245.

RECITALS

A. GBC is providing financing to Grantor pursuant to the Loan and Security Agreement of even date herewith between GBC and Grantor (as amended from time to time, the "Loan Agreement"). Pursuant to the Loan Agreement, Grantor has granted to GBC a security interest in all of Grantor's present and future assets, including without limitation all of Grantor's present and future general intangibles, and including without limitation the "Copyrights" (as defined below), to secure all of its present and future indebtedness, liabilities, guaranties and other obligations to GBC.

B. To supplement GBC's rights in the Copyrights, Grantor is executing and delivering this Agreement.

NOW, THEREFORE, for valuable consideration, Grantor agrees as follows:

1. ASSIGNMENT. To secure the complete and timely payment and performance of all "Obligations" (as defined in the Loan Agreement), and without limiting any other security interest Grantor has granted to GBC, Grantor hereby hypothecates to GBC and grants, assigns, and conveys to GBC a security interest in Grantor's entire right, title, and interest in and to all of the following, now owned and hereafter acquired (collectively, the "Collateral"):

(a) REGISTERED COPYRIGHTS AND APPLICATIONS FOR COPYRIGHT REGISTRATIONS. All of Grantor's present and future United States registered copyrights and copyright registrations, including, without limitation, the registered copyrights listed in SCHEDULE A to this Agreement (and including all of the exclusive rights afforded a copyright registrant in the United States under 17 U.S.C. Section 106 and any exclusive rights which may in the future arise by act of Congress or otherwise) and all of Grantor's present and future applications for copyright registrations (including applications for copyright registrations of derivative works and compilations) (collectively, the "Registered Copyrights"), and any and all royalties, payments, and other amounts payable to Grantor in connection with the Registered Copyrights, together with all renewals and extensions of the Registered Copyrights, the right to recover for all past, present, and future infringements of the Registered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes and all tangible property embodying or incorporating the Registered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto.

(b) UNREGISTERED COPYRIGHTS. All of Grantor's present and future copyrights which are not registered in the United States Copyright Office (the "Unregistered Copyrights"), whether now owned or hereafter acquired, including without limitation the Unregistered Copyrights listed in SCHEDULE B to this Agreement, and any and all royalties, payments, and other amounts payable to Grantor in connection with the Unregistered Copyrights, together with all renewals and extensions of the Unregistered Copyrights, the right to recover for all past, present, and future infringements of the Unregistered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes and all tangible property embodying or incorporating the Unregistered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto. The Registered Copyrights and the Unregistered Copyrights collectively are referred to herein as the "Copyrights."

(c) LICENSES. All of Grantor's right, title and interest in and to any and all present and future license agreements with respect to the Copyrights, including without limitation the license agreements listed in SCHEDULE C to this Agreement (the "Licenses").

(d) ACCOUNTS RECEIVABLE. All present and future accounts, accounts receivable and other rights to payment arising from, in connection with or relating to the Copyrights.

(e) PROCEEDS. All cash and non-cash proceeds of any and all of the foregoing.

2. REPRESENTATIONS. Grantor represents and warrants that:

(a) Each of the Copyrights is valid and enforceable (except to the extent that the Unregistered Copyrights must be registered to be enforced);

(b) Except for the security interest granted hereby and the non-exclusive licenses granted to Grantor's licensees with respect to the Copyrights in the ordinary course of business of Grantor, Grantor is (and upon creation of all future Copyrights, will be) the sole and exclusive owner of the entire and unencumbered right, title, and interest in and to each of the Copyrights and other Collateral, free and clear of any liens, charges, or encumbrances;

(c) There is no pending claim that the use of any of the Copyrights does or may infringe upon or violate the rights of any third person nor does Grantor have knowledge of any pending or threatened infringement of any of the Copyrights by any third person.

(d) Listed on Schedules A and B are all copyrights owned by Grantor, in which Grantor has an interest, or which are used in Grantor's business.

(e) Listed on Schedule C are all Licenses to which Grantor is a party.

(f) Each employee, agent and/or independent contractor who has participated in the creation of the property constituting the Collateral has either executed an assignment of his or her rights of authorship to Grantor or is an employee of Grantor acting within the scope of his or her employment and was such an employee at the time of said creation.

(g) All of Grantor's present and future software, computer programs and other works of authorship subject to United States copyright protection, the sale, licensing or other dispostion of which results in royalties receivable, license fees receivable, accounts receivable or other sums owing to Grantor (collectively, "Receivables"), have been and shall be registered with the United States Copyright Office prior to the date Grantor requests or accepts any loan from GBC with respect to such Receivables and prior to the date Grantor includes any such Receivables in any accounts receivable aging, borrowing base report or certificate or other similar report provided to GBC, and Grantor shall provide to GBC copies of all such registrations promptly upon the receipt of the same.

3. COVENANTS. Until all of the Obligations have been satisfied in full and the Loan Agreement has terminated:

(a) Grantor shall not grant a security interest in any of the Copyrights or other Collateral to any other person and shall not enter into any agreement or take any action that is inconsistent with Grantor's obligations hereunder or Grantor's other Obligations or would impair GBC's rights, under this Agreement or otherwise, without GBC's prior written consent.

(b) Grantor shall ensure that each use of the Copyrights described in Section 1 of this Agreement carries a complete and accurate copyright notice.

(c) Grantor shall use its best efforts to preserve and defend Grantor's rights in the Copyrights unless Grantor, with the concurrence of GBC, reasonably determines that a Copyright is not worth preserving or defending.

(d) Grantor shall undertake all reasonable measures to cause its employees, agents and independent contractors to assign to Grantor all rights of authorship to any copyrighted material in which Grantor has or may subsequently acquire any right or interest.

4. LICENSE RIGHTS. Grantor may license or sublicense the Copyrights only in the ordinary course of business and only on a non-exclusive basis.

5. GBC MAY SUPPLEMENT. * Grantor authorizes GBC to modify this Agreement by amending Schedule A or B to include any future copyrights to be included in the Copyrights. Grantor shall from time to time update the lists of Registered Copyrights and Unregistered Copyrights on Schedules A and B and lists of License Agreements on Schedule C as Grantor obtains or acquires copyrights or grants or obtains licenses in the future. Notwithstanding the foregoing, no failure to so modify this Agreement or amend Schedules A or B or C shall in any way affect, invalidate or detract from GBC's continuing security interest in all Copyrights, whether or not listed on Schedule A or B and all license agreements whether or not listed on Schedule C.

*WITH PRIOR OR CONCURRENT WRITTEN NOTICE TO GRANTOR,

6. DEFAULT. Upon an Event of Default (as defined in the Loan Agreement) GBC shall have, in addition to all of its other rights and remedies under the Loan Agreement, all rights and remedies of a secured party under the Uniform Commercial Code (as enacted in any jurisdiction in which the Copyrights or other Collateral are located or deemed to be located) or other applicable law. Upon occurrence of an Event of Default, Grantor shall, upon request of GBC, give written notice to all parties to the Licenses that all payments thereunder shall be made to GBC, and GBC may itself give such notice.

7. FEES AND EXPENSES. On demand by GBC, without limiting any of the terms of the Loan Agreement, Grantor shall pay all reasonable fees, costs, and expenses (including without limitation reasonable attorneys' fees and legal expenses) incurred by GBC in connection with (a) preparing this Agreement and all other documents relating to this Agreement, (b) consummating this transaction, (c) filing or recording any documents (including all taxes in connection therewith) in public offices; and (d) paying or discharging any taxes, counsel fees, maintenance fees, encumbrances, or other amounts in connection with protecting, maintaining, or preserving the

Copyrights or defending or prosecuting any actions or proceedings arising out of or related to the Copyrights.

8. GBC'S RIGHTS. In the event that Grantor fails to use its best efforts to preserve and defend Grantor's rights in the Copyrights (except as permitted by paragraph 3(c) hereof) within a reasonable period of time after learning of the existence of any actual or threatened infringement thereof, upon twenty (20) days prior written notice to Grantor, GBC shall have the right, but shall in no way be obligated to, bring suit or take any other action, in its own name or in Grantor's name, to enforce or preserve GBC's or Grantor's rights in the Copyrights. Grantor shall at the request of GBC and at Grantor's expense do any lawful acts and execute any documents requested by GBC to assist with such enforcement. In the event Grantor has not taken action to enforce or preserve GBC's and Grantor's rights in the Copyrights and GBC thereupon takes such action, Grantor, upon demand, shall promptly reimburse and indemnify GBC for all costs and expenses incurred in the exercise of GBC's or Grantor's rights under this Section 8.

9. NO WAIVER. No course of dealing between Grantor and GBC, nor any failure to exercise nor any delay in exercising, on the part of GBC, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement by GBC shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by GBC.

10. RIGHTS ARE CUMULATIVE. All of GBC's rights and remedies with respect to the Copyrights and other Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

11. COPYRIGHT OFFICE. At the request of GBC, Grantor shall execute any further documents necessary or appropriate to create and perfect GBC's security interest in the Copyrights, including without limitation any documents for filing with the United States Copyright Office and/or any applicable state office. GBC may record this Agreement, an abstract thereof, or any other document describing GBC's interest in the Copyrights with the United States Copyright Office, at the expense of Grantor.

12. INDEMNITY. Grantor shall protect, defend, indemnify, and hold harmless GBC and GBC's assigns from all liabilities, losses, and costs (including without limitation reasonable attorneys' fees) incurred or imposed on GBC relating to the matters in this Agreement, including, without limitation, in connection with GBC's defense of any infringement action brought by a third party against GBC.

13. SEVERABILITY. The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

14. AMENDMENTS; ENTIRE AGREEMENT. This Agreement is subject to modification only by a writing signed by the parties, except as provided in Section 5 of this Agreement. To the extent that any provision of this Agreement conflicts with any provision of the Loan Agreement, the provision giving GBC greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to GBC under the

Loan Agreement. This Agreement, the Loan Agreement, and the documents relating thereto comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

15. FURTHER ASSURANCES. At GBC's request, Grantor shall execute and deliver to GBC any further instruments or documentation, and perform any acts, that may be reasonably necessary or appropriate to implement this Agreement, the Loan Agreement or any other agreement, and the documents relating thereto, including without limitation any instrument or documentation reasonably necessary or appropriate to create, maintain, perfect, or effectuate GBC's security interests in the Copyrights or other Collateral.

16. RELEASE. At such time as Grantor shall completely satisfy all of the Obligations and the Loan Agreement shall be terminated, GBC shall execute and deliver to Grantor all assignments and other instruments as may be reasonably necessary or proper to terminate GBC's security interest in the Copyrights, subject to any disposition of the Copyrights which may have been made by GBC pursuant to this Agreement. For the purpose of this Agreement, the Obligations shall be deemed to continue if GBC enters into any bankruptcy or similar proceeding at a time when any amount paid to GBC could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.

17. TRUE AND LAWFUL ATTORNEY. Grantor hereby appoints GBC as Grantor's true and lawful attorney, with full power of substitution, to do any or all of the following, in the name, place and stead of Grantor: (a) execute an abstract of this Agreement or any other document describing GBC's interest in the Copyrights, for filing with the United States Copyright Office; (b) execute any modification of this Agreement pursuant to Section 5 of this Agreement; and (c) following an Event of Default (as defined in the Loan Agreement) execute any assignments, notices or transfer documents for purposes of transferring title or right to receive any of the Copyrights or other Collateral to any person, including without limitation GBC.

18. SUCCESSORS. The benefits and burdens of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties; provided that Grantor may not transfer any of the Collateral or any rights hereunder, without the prior written consent of GBC, except as specifically permitted hereby.

19. GOVERNING LAW. The validity and interpretation of this Agreement and the rights and obligations of the parties shall be governed by the laws of the State of California, excluding its conflict of law rules to the extent such rules would apply the law of another jurisdiction, and the United States.

20. WAIVER OF RIGHT TO JURY TRIAL. GBC AND GRANTOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS AGREEMENT; OR (ii) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN GBC AND GRANTOR; OR (iii) ANY CONDUCT,

ACTS OR OMISSIONS OF GBC OR GRANTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH GBC OR GRANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

WITNESS the execution hereof as of the date first written above.

Grantor:

QAD, INC.

By:

Name (please print):

Title:
Chairman of the Board, President, or
Vice President

Accepted.
GBC:

GREYROCK BUSINESS CREDIT,
a Division of Greyrock Capital Group Inc.

By:

Name (please print):

- ---

Title:

STATE OF CALIFORNIA)
) ss.
COUNTY OF
---)

On _____, 199_, before me, _____
_____, Notary Public, personally appeared
_____,
personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

(Seal)

STATE OF CALIFORNIA)
) ss.
COUNTY OF
---)

On _____, 199_, before me, _____
_____, Notary Public, personally appeared
_____,

personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

(Seal)

Schedule A
to
Security Agreement
in Copyrighted Works

QAD, INC.

REGISTERED COPYRIGHTS

U.S. COPYRIGHTS

TITLE OF WORK/YEAR OF CREATION	REGISTRATION NUMBER	DATE OF ISSUANCE

Schedule B
to
Security Agreement in Copyrighted Works

QAD, INC.

Unregistered Copyrights
(Where No Copyright Application Is Pending)

COPYRIGHT DESCRIPTION

Schedule C
to
Security Agreement in Copyrighted Works

QAD, INC.

License Agreements

See Exhibit A attached hereto.

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO

Steven G. Small, Esq.
Levy, Small & Lallas
815 Moraga Drive
Los Angeles, California 90049

DEED OF TRUST

WITH ASSIGNMENT OF RENTS AND ACCELERATION IN EVENT OF SALE

AND SECURITY AGREEMENT

THIS DEED OF TRUST is made effective on July 3, 1996, among

QAD, INC.,
a California corporation,

herein called TRUSTOR, whose address is
6450 Via Real
Carpinteria, California 93013,

CHICAGO TITLE COMPANY,
a California corporation,

herein called TRUSTEE, and

GREYROCK BUSINESS CREDIT,
a Division of NationsCredit Commercial Corporation

herein called BENEFICIARY, whose address is
300 Continental Blvd. Suite 200
El Segundo, California 90245

WITNESSETH: That TRUSTOR irrevocably GRANTS, TRANSFERS and ASSIGNS to TRUSTEE, IN TRUST, WITH THE POWER OF SALE, all the property in SANTA BARBARA County, California described as set forth on Exhibit A attached hereto and incorporated herein by this reference (the "Property"), including without limitation all of the following, whether now existing or hereafter arising: all buildings, structures, and improvements now or hereafter thereon, and all appurtenances, easements, rights and rights of way, water and water rights, pumps and pumping plants, pipes, flumes and ditches thereunto belonging or in anywise appertaining, and all shares of stock evidencing the same; all fixtures, building materials, machinery, machines, motor vehicles, tools, parts, equipment, pumps, engines, motors, boilers, incinerators, inventory, supplies, goods, systems for the supply or distribution of heat, air conditioning, electricity, gas, water, air, light, fuel or refrigeration or for ventilating purposes or for sanitary or draining purposes or for the exclusion of vermin or insects or for the removal of dust, refuse or garbage, elevators, escalators, and related machinery and equipment, fire prevention and extinguishing equipment, security and access control equipment, plumbing, showers, bath tubs, water heaters, toilets, sinks, stoves, ranges, refrigerators, dishwashers, disposals, laundry equipment, wall, window and floor coverings, partitions, doors, windows, awnings, hardware, waste and rubbish removal equipment,

recreational equipment, signs, furniture, furnishings, appliances, ovens, antennas, telephone equipment, office equipment and supplies, plants, carpets, rugs, sculptures, artwork, mirrors, tables, lamps, beds, television sets, light fixtures, chandeliers, desks, cabinets, bookcases, chairs, sofas, benches, and janitorial and maintenance equipment and supplies, and all substitutions, accessories, accessions, replacements, improvements, and additions to any or all of the foregoing; all of the items and things so specified being hereby declared to be, and in all circumstances shall be construed to be, for and in connection with the purposes and powers of this Deed of Trust, things affixed to and a part of the realty described herein, the specific enumerations herein not excluding the general; and also absolutely assigns all of the tolls, earnings, incomes, rents, issues and profits of any and all of the aforesaid property (subject, however, to the right, power and authority hereinafter given to and conferred upon Trustor to collect and apply such rents, issues and profits); and all of the estate, interest, and all other claims and demands including insurance, as well as at law and in equity, which Trustor now has or may hereafter acquire, in and to, or relating to, the aforesaid property; and all condemnation awards, security deposits, utility deposits, and real property tax and insurance rebates and refunds;

FOR THE PURPOSE OF SECURING THE FOLLOWING (collectively, the "Secured Obligations"): (1) performance of each agreement of Trustor contained in this Deed of Trust; and (2) the payment and performance of all indebtedness, liabilities, representations, warranties, guaranties, and other obligations of Trustor to Beneficiary, whether now existing or in any manner hereafter arising, however evidenced, whether as principal, guarantor or otherwise, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, original, renewed, or extended, whether arising directly or acquired from others, including but not limited to, all present and future indebtedness, liabilities, representations, warranties, guaranties, and other obligations of Trustor under or in connection with the following: that certain SECURED PROMISSORY NOTE DATED JULY 3, 1996 made by Trustor to the order of Beneficiary in the original principal amount of $4,000,000; that certain LOAN AND SECURITY AGREEMENT DATED JULY 3, 1996 between Trustor and Beneficiary; and (3) any and all amendments, modifications, renewals, supplements, replacements and extensions of any of the foregoing, including but not limited to amendments, modifications, renewals, supplements, replacements and extensions which are evidenced by new or additional instruments, documents or agreements or which change the rate of interest on any obligations secured hereby or any other term or provision thereof. (The documents, instruments and agreements referred to in this paragraph are collectively referred to herein as the "Loan Documents.")

1. COVENANTS. For the purpose of protecting and preserving the security of this Deed of Trust, Trustor promises and agrees at its sole cost and expense as follows:

1.1 COVENANTS REGARDING THE PROPERTY. Trustor agrees: (a) To keep all buildings, structures, and other improvements now or hereafter situate upon the Property at all times entirely free of dry rot, fungus, termites, beetles, and all other wood-boring, wood-eating and/or harmful or destructive insects, and in all respects to properly care for and keep all of the Property including without limitation all such buildings, structures and other improvements in good condition and repair; (b) not to remove, demolish, or substantially alter (except such alterations as may be required by laws, ordinance, or regulations) any building, structure or improvement thereon; (c) to complete promptly and in good workmanlike manner any building or other improvement which may be constructed on the Property, and (whether or not any insurance proceeds are sufficient for such purpose) promptly to repair and restore in like manner any building or other improvement thereon which may be damaged or destroyed, and to pay when due all claims for labor performed and materials furnished therefor, to complete such construction in accordance with plans and specifications approved in advance in writing by Beneficiary, and to allow Beneficiary to inspect said property at all times during construction, to replace any work or materials unsatisfactory to Beneficiary within fifteen calendar days after written notice from Beneficiary of such fact (which notice may be given to Trustor by registered mail sent to his last known address or by personal service of the same) and Trustor shall not permit work on the construction of such improvements to cease for any reason whatsoever for a period of fifteen (15) calendar days or more; (d) to comply with all laws, ordinances, regulations, conditions, and restrictions now or hereafter affecting the Property or any part thereof or requiring any alterations or improvements to be made thereon; (e) not to commit or permit any waste or deterioration of the Property; (f) not to commit, suffer

or permit any act to be done in or upon the Property in violation of any law or ordinance; (g) to cultivate, irrigate, fertilize, fumigate, prune and keep in good condition all grounds and landscaping appurtenant to the Property; (h) to obtain the prior written approval of Beneficiary of any person or firm to be retained as property manager of the Property and to include a provision in any property management agreement that it is cancelable upon sixty (60) days' prior written notice from Beneficiary if an event of default (as hereinafter defined) occurs; and (i) to do any other act or acts, all in a reasonably timely and proper manner, which, from the character or use of the Property, may be reasonably necessary to protect and preserve said security, the specific enumerations herein not excluding the general.

1.2 INSURANCE. Trustor shall provide and maintain insurance covering all buildings, structures, and improvements now situate or which may be hereafter erected or placed upon the Property, against such hazards as Beneficiary may require (including without limitation fire and extended coverage insurance and earthquake insurance), in an amount equal to the full insurable value thereof (on a replacement cost basis), in form and with insurers satisfactory to and with loss payable to Beneficiary; maintain comprehensive general public liability and property damage insurance, in such amount as Beneficiary may from time to time require, insuring Beneficiary if it so requests; and maintain business interruption and rent loss insurance, if required by Beneficiary, in Beneficiary's sole and absolute discretion, in an amount equal to not less than the total of principal, interest, taxes, assessments and insurance premiums payable under the Loan Documents and this deed of trust for a six (6) month period, unless otherwise agreed to in writing by Beneficiary to the contrary. If the premises are now, or at any time during the term of the note shall be, situated in an area which the Federal Insurance Administration or any other governmental authority designates as a flood or mud slide hazard area or the like, Trustor shall, unless otherwise agreed to in writing by Beneficiary, obtain and maintain in force at all times insurance against loss or damage by flood or mud slide in such amount as Beneficiary may require, but no amount in excess of the maximum

legal limit of coverage, if any, shall be so required. Except as specifically provided herein to the contrary, each policy of insurance required to be secured, kept and maintained by Trustor pursuant to this paragraph shall be with such companies, contain such terms and endorsements and be in such amount(s) as Beneficiary, in Beneficiary's sole and absolute discretion, may require. All such insurance policies shall contain a standard non-contributory mortgagee clause in favor of Beneficiary and shall also contain a provision requiring at least thirty (30) days' notice to Beneficiary prior to any cancellation or modification. Trustor shall deliver to Beneficiary the policy or policies, or a certificate thereof in all respects satisfactory to Beneficiary, at Beneficiary's election, evidencing all insurance as required to be maintained by Trustor pursuant to this paragraph, together with an executed copy of the mortgagee clause to each policy as required herein, and receipts for the payment of premiums thereon. Trustor agrees to pay all premiums on such insurance and give Beneficiary satisfactory evidence of renewal of all such policies with premiums paid at least thirty (30) days before expiration. Trustor shall annually, at least thirty (30) days prior to the renewal of any fire and extended coverage policy, furnish to Beneficiary evidence of the full insurable value of the Property, which evidence shall be in form and substance in all respects satisfactory to Beneficiary as determined by Beneficiary, in Beneficiary's sole and absolute discretion. Trustor shall not permit any condition to exist on or with respect to the Property which would wholly or partially invalidate any insurance thereon. Beneficiary shall not by the fact of approving, disapproving, accepting, preventing, obtaining or failing to obtain any such insurance incur any liability for the form or legal sufficiency of insurance contracts, solvency of insurers, or payment of losses, and Trustor hereby expressly assumes full responsibility therefor and any liability, to, or of, Beneficiary, if any, thereunder. Effective upon any default hereunder, all of Trustor's right, title and interest in and to all such policies of insurance and any unearned premiums paid thereon are hereby assigned to Beneficiary, who shall have the right, but not the obligation, to assign the same to any receiver of the Property or any purchaser of the Property, or any part thereof, at any foreclosure sale, and Beneficiary is hereby irrevocably appointed attorney-in-fact for Trustor to so assign and transfer said policies. In the event of any loss covered by any insurance policy maintained by Trustor, Trustor shall give immediate written notice thereof to Beneficiary, and the amount collected under any such policy of insurance may, at the sole option of Beneficiary, be applied by Beneficiary upon any of the Secured Obligations in such order as Beneficiary

may determine, or said amount or any portion thereof may, at the sole option of Beneficiary, be used in accordance with Paragraph 16 below in replacing or restoring the improvements partially or totally destroyed to a condition satisfactory to Beneficiary, in which event neither Trustee nor Beneficiary shall be obligated to see to the proper application thereof, and the amount so used shall not be deemed a payment on any of the Secured Obligations. Such application and/or use shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice; any unexpired insurance and all returnable insurance premiums shall inure to the benefit of, and pass to, the purchaser of the Property covered thereby at any trustee's sale held hereunder.

1.3 DEFENSE OF ACTIONS. Trustor shall appear in and defend any action or proceeding affecting or purporting to affect the security of this Deed of Trust, and/or any additional or other security for any of the Secured Obligations, the interest, rights, powers, and/or duties of Trustee and/or Beneficiary hereunder, it being agreed, however, that Beneficiary and Trustee, or either of them, at their or its option, may appear in and defend any such action or proceeding and/or may commence any action or proceeding deemed necessary by it or them to perfect, maintain, or protect such interest, rights, powers, and/or duties, all in such manner and to such extent as to them seem fit, and Beneficiary is authorized to pay, purchase, or compromise on behalf of Trustor any encumbrance or claim which in its judgment appears or purports to affect the security hereof or to be superior hereto; Trustor shall pay all costs and expenses,

including cost of evidence of title and attorneys' fees in a reasonable sum, in any action or proceeding in which Beneficiary and/or Trustee may appear.

1.4 EVIDENCE OF TITLE. Trustor shall deliver forthwith to Beneficiary upon request any and all certificates or other evidence of title which the Trustor may secure through any proceeding for the registration of the title to the Property, or otherwise, to be held by it during the term of this Deed of Trust.

1.5 TAXES AND OTHER PAYMENTS. Trustor shall (a) pay, and submit to Beneficiary, at least 10 days before default or delinquency, a receipt evidencing payment of, all taxes and assessments affecting the Property, and any accrued interest, cost and/or penalty thereon; (b) pay when due all encumbrances (including any debt secured by deed of trust), ground rents, liens, and charges, with all interest, fees and penalties, which now or hereafter appear to be a lien on or affect all or any part of the Property; (c) pay when due all costs, fees and expenses of these Trusts, including cost of evidence of title and Trustee's fees in connection with sale, whether completed or not, which amounts shall become due upon delivery to Trustee of a Declaration of Default and Demand for Sale, as hereinafter provided; (d) pay when due all charges for utilities and services relating to the Property.

1.6 ASSESSMENTS. Trustor shall pay all assessments against the Property at least 10 days before any assessment, penalty, bond or bonds could or would be issued in connection therewith.

1.7 WATER. Trustor shall pay at least 10 days before delinquency all assessments (including any interest, costs and penalties) upon any water stock covered hereby or used in connection with the Property, and all rents, assessments or charges for water available to or used in connection with the Property and/or for the flumes, ditches, pipes or aqueducts in which such water may be furnished or delivered.

1.8 EXPENSES. Trustor shall pay immediately without demand, all sums expended and expenses incurred by Trustee and/or Beneficiary, including attorney's fees, under any of the terms of, or relating in any way to, this Deed of Trust or the other Loan Documents, with interest from date of expenditure at the highest interest rate accruing on any of the Secured Obligations.

1.9 RECORDS AND REPORTS. Trustor shall keep and maintain, in the county in which the Property is located, complete and accurate books of account and records reflecting the results of the operation of the Property and Trustor's financial condition, together with copies of all written contracts, leases, and other instruments affecting the Property. Beneficiary shall have the right at all times to examine all such books, records, contracts, leases and other instruments and to make copies thereof. Trustor shall provide to Beneficiary annual financial statements with respect to the operations of the Property,

showing all items of income and expense with respect to the Property, and annual financial statements with respect to Trustor, in each case within 90 days after the end of Trustor's fiscal year. All such financial statements shall be certified to be true, complete and correct by Trustor (or, if Trustor is a corporation, by Trustor's chief financial officer). Trustor shall provide such additional information and reports concerning the Property and Trustor's financial condition as Beneficiary shall from time to time request.

1.10 ENVIRONMENTAL MATTERS. Trustor represents and warrants that neither Trustor nor, to the best knowledge of Trustor, any other person, has ever caused or permitted any "Hazardous Material" (as hereinafter defined) to be incorporated in or disposed of on, under or at the Property or any part thereof or any other real property legally or beneficially owned (or any interest or estate in which is owned) by the Trustor, and neither the Property nor any part thereof, nor any other real property legally or

beneficially owned (or any interest or estate in which is owned) by the Trustor has ever been used (whether by the Trustor or, to the best knowledge of the Trustor, by any other person) as a dump site or storage (whether permanent or temporary) site for any Hazardous Material. The Trustor hereby agrees to indemnify and defend the Beneficiary and hold the Beneficiary harmless from and against any and all losses, liabilities, damages, injuries, costs, expenses and claims of any and every kind whatsoever paid, incurred or suffered by, or asserted against, the Beneficiary for, with respect to, or as a direct or indirect result of, the presence on or under, or the escape, seepage, leakage, spillage, discharge, emission, discharging or release from the Property of any Hazardous Material (including, without limitation, any losses, liabilities, damages, injuries, costs, expenses or claims asserted or arising under the Comprehensive Environmental Response, Compensation and Liability Act, any so-called "Superfund" or "Superlien" law, or any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any Hazardous Material), regardless of whether or not caused by, or within the control of, the Trustor. For purposes of this Deed of Trust, "Hazardous Material" means and includes any hazardous, toxic or dangerous waste, substance or material defined as such in (or for purposes of) the Comprehensive Environmental Response, Compensation and Liability Act, any so-called "Superfund" or "Superlien" law, or any other federal, state or local statute, law, ordinance, code, rule, regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect. If Trustor receives any notice of (i) the happening of any event involving the use, spill, discharge or clean-up of any Hazardous Material or (ii) any complaint, order, citation or notice with regard to air emissions, water discharges, noise emissions or any other environmental, health or safety matter affecting the Trustor (an "Environmental Complaint") from any person or entity, including, but not limited to, the United States Environmental Protection Agency ("EPA"), then the Trustor shall give within seven (7) business days both oral and written notice of the same to the Beneficiary. Upon the Beneficiary's receipt of any notice from any person or entity, including, but not limited to, the EPA, asserting the existence of any Hazardous Material on, or an Environmental Complaint pertaining to the Property which, if true, could result in an order, suit or other action against Trustor and/or any part of the Property by any governmental agency or otherwise which, in the sole opinion of the Beneficiary, could jeopardize its security under this Deed of Trust, the Beneficiary shall have the right, but not the obligation, to exercise any of its rights and remedies under this Deed of Trust or to enter onto the Property or to take such other actions as it deems necessary or advisable to clean up, remove, resolve or minimize the impact of, or otherwise deal with, any such Hazardous Material or Environmental Complaint. Any and all sums expended by the Beneficiary for such purposes, together with interest thereon at the highest rate accruing on any of the Secured Obligations until paid, shall be immediately due and payable by Trustor to Beneficiary and shall be indebtedness secured by this Deed of Trust.

2. FAILURE TO PAY OR PERFORM. Should Trustor fail or refuse to make any payment or do any act which it is obligated hereunder to make or do, at the time and in the manner herein provided, then Trustee and/or Beneficiary, each in its discretion, each being hereby made the judge of the legality thereof, may, without notice to or demand upon Trustor, and without releasing Trustor from any obligation hereof or waiving any default, make or do the same in such manner and to such extent as either may deem necessary to protect the security hereof,

either Trustee or Beneficiary being authorized to enter upon and take possession of the Property for such purposes, and/or pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which in the judgment of either may affect or appear to affect the security of this Deed of Trust, the interest of Beneficiary or the rights, powers and/or duties of Trustee and/or Beneficiary hereunder. Neither Trustee nor Beneficiary shall be under any

obligation to make any of the payments or do any of the acts above mentioned in this Section 2. All sums expended by Trustee or Beneficiary in exercising any right, privilege or remedy under this Deed of Trust, including but not limited to costs of survey, evidence of title, court costs and attorneys' fees, together with interest from the date of expenditure at the highest rate accruing on any of the Secured Obligations, shall be due from Trustor on demand and shall be secured by this Deed of Trust.

3. CONDEMNATION. Immediately upon its obtaining knowledge of the institution or the threatened institution of any condemnation, eminent domain, change of grade or other governmental proceeding affecting the Property, or any part thereof, Trustor shall give written notice thereof to Beneficiary. Trustor shall then, if requested by Beneficiary, file or defend its claim thereunder and prosecute same with due diligence to its final disposition and shall cause any awards or settlements to be paid over to Beneficiary for disposition pursuant to the terms of this Deed of Trust. Trustor may be the nominal party in such proceeding, but Beneficiary shall be entitled to participate in and to control same and to be represented therein by counsel of its own choice; and Trustor will deliver, or cause to be delivered, to Beneficiary such instruments as may be requested by it from time to time to permit such participation. If the Property is taken or diminished in value, or if a consent settlement is entered, by or under threat of such proceeding, or in any other event, the award or settlement payable to Trustor by virtue of its interest in the Property shall be, and by these presents is, assigned, transferred and set over unto Beneficiary, and when paid shall be used at Beneficiary's sole option to be applied to the payment of any or all of the Secured Obligations, whether the same be then due or not and in such order or manner as Beneficiary may determine. Such application or release shall not cure or waive any default or notice of default hereunder or invalidate any act done pursuant to such notice.

4. NO WAIVER. By accepting payment of any sum secured hereby after its due date, Beneficiary does not waive its right either to require prompt payment when due of all other sums so secured or to declare default as herein provided for failure so to pay.

5. PARTIAL RECONVEYANCE, ETC. At any time, or from time to time, without liability therefor and without notice, upon written request of Beneficiary and presentation of this Deed of Trust and any note or notes included in the Loan Documents, for endorsement, and without affecting the personal liability of any person for payment of the indebtedness secured hereby or the effect of this Deed of Trust upon the remainder of the Property, Trustee may: reconvey any part of said property; consent in writing to the making of any map or plat thereof; join in granting any easement thereon; or join in any extension agreement or any agreement subordinating the lien or charge hereof.

6. FULL RECONVEYANCE. Upon written request of Beneficiary stating that all Secured Obligations have been paid and upon surrender to the Trustee of this Deed of Trust and any note or notes included in the Loan Documents, for cancellation and retention and upon payment of its fees, Trustee shall reconvey, without warranty, the property then held hereunder. The recitals in such reconveyance of any matters or facts shall be conclusive proof of the truthfulness thereof. The grantee in any reconveyance may be described as "the person or persons legally entitled thereto".

7. RELEASES. Without affecting the liability of any other person liable for the payment of the Secured Obligations, and without affecting the lien or charge of this Deed of Trust upon any property not then or theretofore released as security, for the full amount of all of the Secured Obligations, Beneficiary may from time to time, and without notice: release any person so liable, extend the maturity or alter any of the terms of any such obligation, or grant other indulgences, release or reconvey, or cause to be released or reconveyed at any time at Beneficiary's option any parcel or portion or all of the real property

described herein, take or release any other or additional security for any obligation herein mentioned, and/or make compositions or other arrangements with debtors in relation thereto. If the Beneficiary at any time holds any additional security for any of the Secured Obligations, it may enforce the sale thereof or otherwise realize upon the same at its option, either before or concurrently with or after a sale is made hereunder.

8. INSPECTIONS. Beneficiary is authorized by itself, its agents or workmen, at any time and from time to time, to enter at any time upon all or any part of the Property and the improvements thereon situated for the purpose of inspecting the same, and for the purpose of performing any of the acts it is authorized to perform under the terms of this Deed of Trust.

9. ABSOLUTE ASSIGNMENT OF RENTS. Notwithstanding any provisions to the contrary contained in this Deed of Trust, Trustor hereby absolutely assigns to Beneficiary, during the continuance of these trusts, all of Trustor's rights and interests in all rents, issues and profits of the Property, and of any personal property located thereon, with or without taking possession of the Property or said personal property. Trustor hereby authorizes Beneficiary to collect the rents, issues and profits of the Property and to direct each tenant of the Property to pay all of the same for which such tenant is liable directly to Beneficiary; provided that so long as there is no default in any of the terms or conditions of this Deed of Trust or any of the Secured Obligations, Trustor shall have the privilege of continuing to manage the Property as owner and collecting and retaining the rents, issues and profits arising therefrom but only as they accrue and become payable, rendering such accounts thereof as may be required by Beneficiary. If there occurs a default in any of the terms or conditions of this Deed of Trust or of the Secured Obligations, Trustor's privilege of collecting the rents, issues and profits of the Property shall automatically cease, and Beneficiary may at its option, either directly or by a receiver appointed by a court, take any one or more the actions set forth in Paragraphs 12 and 13 below, and the other provisions hereof, without further notice or demand upon Trustor or any other person liable for the obligations secured hereby or having an interest in the Property, without regard to the adequacy of the security for the obligations secured hereby, with or without bringing any action or proceeding, with or without having recorded any notice of default and election to sell, and without limiting Beneficiary's other rights and remedies. After deducting from the rents, issues and profits collected by Beneficiary, all costs of maintenance and operation of the Property, and all attorneys' fees incurred by Beneficiary, and all other costs, fees and expenses incurred in connection therewith, Beneficiary may apply the balance of the amounts collected to all or any part of the Secured Obligations in such order and manner as Beneficiary may determine. Beneficiary's acceptance of rents, issues and profits hereunder shall not constitute a waiver of any other right which Trustee or Beneficiary may have under this Deed of Trust or applicable law. Beneficiary's receipt and application of such rents, issues and profits under this Paragraph, after the execution and delivery of a declaration of default and demand for sale, or during the pendency of a trustee's sale or foreclosure proceedings hereunder, shall not cure such default or affect such sale proceeding. Upon Beneficiary's delivery of a demand for rents, issues or profits to any tenants of the Property, such tenant is authorized to pay to Beneficiary the same for which it is obligated, without liability on the part of such tenant to make any inquiry into the existence of any default by Trustor. Beneficiary shall have the right to compromise any claim or set-off against rent which any tenant may assert pursuant to any of said leases and any such compromise shall be binding and enforceable against Trustor, unless Beneficiary acted in a grossly negligent and reckless manner, but, nothing contained in this paragraph shall require Beneficiary to take any action to compromise or settle any such claim. Trustor shall execute and deliver to Beneficiary such further documents and instruments and take such further actions as Beneficiary may require in order to effectuate or confirm the assignment and rights granted herein. Failure or discontinuance of Beneficiary

at any time or from time to time to collect any such rents, issues and profits shall not in any way impair the subsequent enforcement by Beneficiary of the rights herein conferred upon it. Nothing contained herein, nor the exercise of any right, power or authority herein granted to Beneficiary shall be construed to be an affirmation by it of any tenancy, lease, or option, nor a subordination of the lien of this Deed of Trust to any such tenancy, lease or option. Trustor hereby further assigns to Beneficiary all prepaid rents and all moneys which may have been or may hereafter be deposited with Trustor by any lessee of the

Property herein described or any part or portions thereof, to secure the payment of any rent, and upon default in the performance of any of the provisions hereof, Trustor agrees to deliver such rents and deposits to Beneficiary. Trustor agrees that under no circumstances and in no event, whether Beneficiary be in possession of any part or portion or the entirety of said Property, or not, will Beneficiary ever be deemed to have assumed any of the duties of a lessor under said leases or be responsible or owe any obligation to see to it that the Property produces revenue; nor will Beneficiary otherwise have any of the duties of a mortgagee in possession at any time or under any circumstances. Trustor covenants, warrants and agrees never to assert that Beneficiary has any such duties except under an express written agreement of assumption executed by Beneficiary hereafter. Trustor shall and does hereby agree to indemnify and to hold Beneficiary harmless from any liability, loss or damage which it might incur under any said lease or under or by reason of this assignment and from any claims and demands whatsoever which may be asserted against Beneficiary by reason of an alleged obligation or undertaking on Beneficiary's part to perform or discharge any of the terms, covenants or agreements contained in said leases. Trustor reserves the right, while Beneficiary is in possession of the Property, to propose leases or other revenue producing transactions to Beneficiary and Beneficiary agrees to consider same.

10. PERSONAL PROPERTY SECURITY INTEREST. To the extent any property covered by this Deed of Trust consists of an interest in personal property covered by the California Uniform Commercial Code, this Deed of Trust constitutes a security agreement and is intended to create a security interest in such property in favor of Beneficiary. This Deed of Trust shall be self-operative with respect to such property, but Trustor shall execute and deliver on demand from Beneficiary one or more security agreements, financing statements and other instruments as Beneficiary may request in order to impose the lien hereof more specifically upon any such property, the terms and conditions thereof to be as required by Beneficiary, in Beneficiary's sole and absolute discretion. Without limiting the generality of the foregoing, as security and collateral for all of the Secured Obligations, Trustor grants Beneficiary a continuing security interest in all of Trustor's interest in all of the following types of property, whether now owned or hereafter acquired and wherever located (collectively, the "Collateral"), which are now or hereafter used or useful for or in connection with the ownership, design, planning, construction, development, use, operation, maintenance, or marketing of, or are otherwise related to, the Property: All accounts, contract rights, general intangibles, inventory, equipment, deposit accounts, documents, instruments, letters of credit, farm products, fixtures and chattel paper (as those terms are defined in the Uniform Commercial Code) including without limitation the following: (1) All deposits, advance payments, security deposits, and rental payments made by or on behalf of Trustor to others, or by others to Trustor, including (but not limited to) those relating to any or all of the following: management or operational services; marketing services; architectural, engineering, or design services; utility services; cleaning, maintenance, security, or repair services; rubbish or refuse removal services; sewer services; rental of furnishings, fixtures or equipment; parking; or any other service; (2) All reports, appraisals, drawings, plans, blueprints, studies, specifications, certificates of occupancy, building permits, grading permits, and other permits, surveys, licenses, consents, authorizations, utility installation and service agreements, management contracts, franchise agreements, rights and claims under insurance policies, rights to condemnation and other awards and governmental claims, tax refunds, goodwill, designs, customer lists, and all other rights,

privileges and franchises, and all amendments, modifications, supplements, general conditions and addenda thereto; (3) All tradenames, trademarks, tradestyles, service marks, logos, letterheads, advertising symbols, goodwill, telephone numbers, advertising rights, negatives, prints, brochures, flyers, pamphlets and other media items; (4) All warranties and guaranties, whether written or oral, from any third party; (5) All legal and equitable claims, causes of action, and rights against architects, engineers, designers, contractors, subcontractors, suppliers, materialmen and any other party supplying labor, services, materials or equipment, directly or indirectly, in connection with the design, planning, construction, development, use, operation, maintenance, or marketing of all or part of the Property; (6) All funds, deposits and reserves at any time held by Beneficiary; (7) all rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise); and (8) All proceeds, insurance proceeds, and products of, and all additions, substitutions, accessions, accessories,

replacements and improvements, to, any or all of the foregoing, and all guarantees of and security for any and all of the foregoing, and all books and records relating to any and all of the foregoing. Trustor agrees that all property of every nature and description, whether real or personal, covered by this Deed of Trust, together with all personal property covered by the security interest granted hereby, in the Loan Documents or as contained in other instruments executed or to be executed by Trustor, may, at Beneficiary's option, be deemed to be encumbered as one unit, and that, upon the occurrence of any event of default, this Deed of Trust and such security interest, at Beneficiary's option, may be foreclosed or sold in the same proceeding, or in separate proceedings, judicial or non-judicial. The filing of any financing statement relating to any personal property or rights or interest generally or specifically described herein shall not be construed to diminish or alter any of Beneficiary's rights or priorities hereunder.

11. EVENTS OF DEFAULT; ACCELERATION. In addition to all other rights and remedies of Beneficiary set forth in this Deed of Trust, or which it otherwise has, under the other Loan Documents or any security or other agreement heretofore, now or hereafter entered into between Trustor and Beneficiary, or at law or in equity, all of the Secured Obligations shall immediately become due and payable, irrespective of the maturity dates expressed in any note or agreement evidencing the same, at the option of the Beneficiary, and without demand or notice, upon the happening of any one or more of the following events, any one of which shall constitute a default and event of default hereunder: (i) any default or Event of Default shall occur under, or as defined in, any of the Loan Documents; or (ii) any sale, lease (except for tenant leases entered into in the ordinary course of business for a period of not more than 3 years), transfer, or encumbrance of the Property or any portion thereof or interest therein or any personal property in which Beneficiary has a security interest (other than a sale of obsolete or worn out personal property which is being replaced), or any agreement to do any of the foregoing, without the prior written consent of Beneficiary being first obtained; or (iii) any divestment of the title of any Trustor to the Property, or any part thereof, or any interest therein, in any manner whatsoever, whether voluntary or involuntary; or (iv) any of the Property shall be subject to any abatement proceeding. In addition to the foregoing, an Event of Default shall be deemed to occur if an aggregate of more than * of the stock of Trustor is transfered in any one or more related or unrelated transactions. Upon presentation of a signed statement by Beneficiary setting forth facts showing that one or more of the foregoing events has occurred, Trustee is authorized to accept as true and conclusive such statement and all facts contained therein and to act on such statement in such manner as it deems appropriate. No specification herein of an event which constitutes a default and event of default hereunder shall limit any provision of any other Loan Document specifying that an event is a default or event of default thereunder, whether or not the events so specified are similar. Without limiting Beneficiary's other rights and remedies, upon the occurrence of any default or Event of Default, the interest rate on the Secured Obligations shall increase by an additional 5% per annum until such default has been cured.

*50%

12. DECLARATION OF DEFAULT AND SALE. In addition to all other rights and remedies of Beneficiary set forth in this Deed of Trust, or at law or in equity, upon the occurrence of any of the foregoing events of default set forth in Paragraph 11, above, Beneficiary shall have the option to execute and deliver to Trustee a written declaration of default and demand for sale and written notice of default and election to cause to be sold the Property, and, in such event, shall surrender to Trustee this Deed of Trust, any note or notes included in the Loan Documents, and all documents evidencing any expenditures hereunder. Thereafter such notice of default and election to cause the Property to be sold shall be duly filed for record. Beneficiary, from time to time before Trustee's Sale, may rescind any such notice by executing and delivering to Trustee a written notice of such rescission, which notice, when recorded, also shall constitute a cancellation of any prior declaration of default and demand for sale. The exercise by Beneficiary of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring, or impair the right of Beneficiary to execute and deliver to Trustee, as above provided, other declarations of default and demand for sale, and notices of breach or default, and of election to cause to be sold the Property to satisfy the obligations hereof, nor otherwise affect any provision, covenant or condition of said note or notes or this Deed of Trust or any other Loan Documents or any of the rights, obligations or remedies of the parties

thereunder. After the lapse of such time as may then be required by law after recordation of notice of default and election to sell, without demand on Trustor, Trustee, first having given notice of sale as then required by law, may sell the Property at the time and place of sale fixed by it in the notice of sale, either in separate parcels or as a whole, and in such order as Beneficiary may determine, at public auction to the highest bidder for cash in lawful money of the United States of America, payable at time of sale. Trustee may (and, upon request by Beneficiary, shall) postpone sale of all or any portion of the Property by public announcement at such time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the time fixed by the preceding postponement. Without further notice Trustee may make such sale at the time to which the same shall have been so postponed. Trustee shall deliver to the purchaser at any such sale its Deed conveying the property so sold, but without any covenant or warranty, express or implied, and the recitals in such deed or deeds of any matters or facts affecting the regularity or validity of said sale shall be conclusive proof of the truthfulness thereof; and such deed or deeds shall be conclusive against all persons as to all matters or facts therein recited. Any person, including Trustor, Trustee, or Beneficiary may purchase at such sale. If, for any reason, Trustor is in possession of the Property at the time of such sale, Trustor shall immediately surrender possession of the Property to the purchaser thereof, without demand. Trustee shall apply the proceeds of any such sale to payment of: (a) all reasonable costs, fees, charges, and expenses of Trustee and of these trusts, fees of any attorneys employed by Trustee and/or Beneficiary pursuant to the provisions hereof, or in connection herewith, Trustee's fees in connection with sale, and all expenses of sale, including the cost of procuring guarantee or evidence of title in connection with the sale proceedings; (b) the Secured Obligations and all other sums then secured hereby, including without limitation all sums advanced or expended under the terms hereof and not then repaid, the amount unpaid on any additional sums borrowed in accordance with the provisions hereof, the interest on each of the foregoing items, all in such manner and order of priority or preference as the Beneficiary may in its sole and absolute discretion determine; (c) the remainder, if any, to the person or persons legally entitled thereto, upon proof satisfactory to the Trustee of such right.

13. ADDITIONAL RIGHTS. In addition to all other rights and remedies of Beneficiary set forth in this Deed of Trust, or at law or in equity, upon the occurrence of any of the foregoing events of default set forth in Paragraph 11, above, Beneficiary, either directly or by a receiver appointed by a court, may at its

option do any or all of the following, without notice to or demand upon Trustor, without regard to the adequacy of the security for the obligations secured hereby, without bringing any action or proceeding, and without having given or recorded a notice of default and election to sell: (a) enter into possession and hold, occupy, possess and enjoy the Property; (b) make, cancel, enforce or modify leases pertaining to the Property; (c) obtain and eject tenants; (d) set or modify rents; (e) collect all or any part of the rents, issues and profits of the Property; (f) do all acts respecting the Property as Beneficiary (or such receiver) may deem appropriate or necessary to preserve its value; and (g) apply any funds in the possession of the Beneficiary (or such receiver), after deducting the expenses of maintenance and operation of the Property which may be incurred, to the payment of any obligations secured hereby, in such order as Beneficiary may determine. If Beneficiary elects to seek the appointment of a receiver, Trustor hereby irrevocably, unconditionally and expressly consents to the appointment of such receiver, without regard to the adequacy of the security for the obligations secured hereby, and waives any requirement of bond or other security.

14. OTHER SECURITY. Trustee and Beneficiary, and each of them, shall be entitled to enforce payment and/or performance of any indebtedness or obligations secured hereby and to exercise all rights and powers under this Deed of Trust or under any other agreement or any laws now or hereafter in force, notwithstanding some or all of the said indebtedness and obligations secured hereby are now or shall hereafter be otherwise secured, whether by mortgage, deed of trust, pledge, lien, assignment or otherwise. Neither the acceptance of this Deed of Trust nor its enforcement whether by court action or pursuant to the power of sale or other powers herein contained, shall prejudice or in any manner affect Trustee's or Beneficiary's right to realize upon or enforce any other security now or hereafter held by Trustee or Beneficiary, it being agreed that Trustee and Beneficiary, and each of them, shall be entitled to enforce this Deed of Trust and any other security now or hereafter held by Beneficiary

or Trustee in such order and manner as they or either of them may in their uncontrolled discretion determine.

15. REPRESENTATIONS AND WARRANTIES. Trustor and each signatory who signs on its behalf hereby jointly and severally represents and warrants as follows:

(a) That Trustor is a corporation duly formed, validly existing and in good corporate standing under the laws of the jurisdiction of its incorporation and with power to (i) incur the indebtedness evidenced by the Loan Documents; (ii) grant this Deed of Trust; and (iii) enter into the other Loan Documents and all other instruments executed and delivered to Beneficiary concurrently herewith;

(b) That this Deed of Trust, the Loan Documents and all other instruments executed and delivered to Beneficiary concurrently herewith were executed in accordance with the requirements of law and in accordance with any requirements of Trustor's articles of incorporation, and any amendments thereto;

(c) That the execution by Trustor of this Deed of Trust, the Loan Documents, and all other instruments executed and delivered to Beneficiary concurrently herewith, and the full and complete performance by Trustor of the provisions thereof, is authorized by Trustor's bylaws and by appropriate resolution of Trustor's board of directors and will not result in any breach of, or constitute a default under, or result in the creation of any lien, charge or encumbrance (other than those contained herein or in any instrument delivered to Beneficiary concurrently herewith) upon any property or assets of Trustor under either the articles of incorporation or bylaws of Trustor or any indenture, mortgage, Deed of Trust, bank loan or credit agreement or other instrument or agreement to which Trustor is a party or by which Trustor or its property is bound;

(d) That save and except for taxes and assessments which are to be paid by Trustor as specified herein, Trustor will not create or suffer or permit to be created, subsequent to the date of the execution and delivery of this Deed of Trust, any other lien or encumbrance upon the Property whether or not superior hereto;

(e) That as of the date of execution of this Deed of Trust it is the legal owner of the Property, and no tenant or other person has any option or right of any kind to purchase or lease the Property or any part thereof.

16. APPLICATION OF PROCEEDS OF INSURANCE. If the proceeds of the insurance described in Paragraph 1.2 above are to be used for restoration, repair or replacement of the Property (hereinafter referred to as the "Work"), such proceeds shall be paid out by Beneficiary from time to time to Trustor (or, at the option of Beneficiary, jointly to Trustor and the persons furnishing labor and/or material incident to the Work or directly to such persons) as the Work progresses, subject to the following conditions: (a) if the cost of the Work estimated by Beneficiary shall exceed * , prior to the commencement thereof (other than Work to be performed on an emergency basis to protect the Property or prevent interference therewith), (i) an architect or engineer, approved by Beneficiary, shall be retained by Trustor (at Trustor's expense) and charged with the supervision of the Work, and (ii) Trustor shall have prepared, submitted to Beneficiary and secured Beneficiary's written approval of the plans and specifications for such Work; (b) each request for payment by Trustor shall be made on ten (10) days' prior written notice to Beneficiary and shall be accompanied by a certificate to be executed by the architect or engineer supervising the Work (if one is required pursuant to subparagraph (a) above), otherwise by Trustor or an executive officer or general partner of Trustor, stating, among such other matters as may be reasonably required by Beneficiary, that: (i) all of the Work completed has been done in compliance with the approved plans and specifications (if any be required pursuant hereto); (ii) the sum requested is justly required to reimburse Trustor for payments by Trustor to, or is justly due to, the contractor, subcontractors, materialmen, laborers, engineers, architects or other persons rendering services or materials for the Work (giving a description of such services and materials); (iii) when added to all sums previously paid out by Trustor, the sum requested does not exceed the value of the Work done to the date of such certificate; and (iv) the amount of insurance proceeds remaining in the hands of Beneficiary when combined with the Trustor's funds, if any, to be utilized for payment of the Work will be sufficient on completion of the Work to pay for the same in full (giving, in such reasonable detail as the Beneficiary may require, an estimate of the cost

of such completion); (c) each request shall be accompanied by waivers of lien, satisfactory in form and substance to Beneficiary, covering that part of the Work for which payment or reimbursement is being requested; (d) there has not occurred any event of default since the hazard, casualty or contingency giving rise to payment of the insurance proceeds; (e) in the case of the request for the final disbursement, such request is accompanied by a copy of any Certificate of Occupancy or other certificate required by any legal requirement to render occupancy of the damaged portion of the Property lawful; and (f) if, in Beneficiary's judgment, based upon the estimate described above the amount of such insurance proceeds will not be sufficient to complete the Work (which determination may be made prior to or during the performance of the Work), Trustor shall deposit with Beneficiary, immediately upon a request therefor, an amount of money in an amount which, when added to such insurance proceeds, will be sufficient, in Beneficiary's judgment, to complete the Work. If, upon completion of the Work, any portion of the insurance proceeds has not been disbursed to Trustor (or one or more of the other aforesaid persons) incident thereto, Beneficiary may, at Beneficiary's sole option, disburse such balance to Trustor or apply such balance toward the payment of the Secured Obligations. Beneficiary shall have the right to withhold from each such disbursement ten percent (10%) (or such

greater amount, if permitted or required by any legal requirement) of the amount otherwise herein provided to be disbursed, and to continue to withhold such sum, until the time permitted for perfecting liens against the Property has expired (or such longer period of time as permitted or required by any legal requirement), at which time the amount withheld shall be disbursed to Trustor (or to Trustor and any person or persons furnishing labor and/or material for the Work or directly to such persons). Notwithstanding anything here to the contrary, Beneficiary shall, without limiting its other rights and remedies, have the right to apply the whole or any part of such insurance proceeds to the Secured Obligations at any time upon the occurrence of any event of default.

*$150,000

17. INUREMENT. This Deed of Trust applies to, inures to the benefit of, and binds all parties hereto, their heirs, legatees, devisees, administrators, executors, successors and assigns. The term "Beneficiary" shall include not only the original Beneficiary hereunder but also any future owner and holder, including pledgees, of the note or notes secured hereby.

18. SEPARATE PROPERTY. Each married person who joins in executing this Deed of Trust and any note or notes secured thereby, hereby agrees and expressly assents to the liability of his or her separate property for all his or her debts and obligations herein mentioned. Such assent, however, shall not be deemed to create a present lien or encumbrance upon any of his or her separate property not described herein.

19. INVALIDITY. If any provision hereof should be held unenforceable or void, in whole or in part, then such unenforceable or void provision or part shall be deemed separable from the remaining provisions and shall in no way affect the validity of this Deed of Trust.

20. ACCEPTANCE; SUBSTITUTION OF TRUSTEE. Trustee accepts these Trusts when this Deed of Trust, duly executed and acknowledged is made a public record as provided by law. Beneficiary may substitute the Trustee hereunder from time to time by an instrument in writing in any manner now or hereafter provided by law. Such writing, upon recordation, shall be conclusive proof of proper substitution of such successor trustee or trustees, who shall thereupon and without conveyance from the predecessor trustee, succeed to all its title, estate, rights, powers and duties.

21. WAIVERS. Trustor waives any requirements of presentment, demands for payment, notices of nonpayment or late payment, protest, notices of protest, notices of dishonor, and all other formalities. Trustor waives all rights or privileges it might otherwise have to require Trustee or Beneficiary to proceed against or exhaust the assets encumbered hereby or by any other security document or instrument securing the Secured Obligations or to proceed against any guarantor, or to pursue any other remedy available to Beneficiary in any particular manner or order under the legal or equitable doctrine or principle of marshalling or suretyship and further agrees that Trustee or Beneficiary may proceed against any or all of the assets encumbered hereby or by any other security document or instrument securing the Secured Obligations in the event of

default in such order and manner as Beneficiary in its sole discretion may determine.

22. NO NOTICE. Trustee shall be under no obligation to notify any party hereto of any action or proceeding of any kind in which Trustor, Beneficiary and/or Trustee shall be a party, unless brought by Trustee, or of any pending sale under any other Deed of Trust.

23. CONSTRUCTION. In this Deed of Trust, whenever the context so requires, the masculine gender includes the feminine and/or neuter, and the singular number includes the plural. The term "and/or" as used herein shall mean one or the other or both or any one or all of the things or persons referred to.

24. STATEMENTS. For any statement regarding the obligations secured hereby, a charge, which Trustor agrees to pay, may be made in an amount not exceeding the maximum allowed by law at the time any such statement is requested.

25. WAIVER OF STATUTE OF LIMITATIONS. The right to plead any and all statutes of limitations as a defense to any of the Secured Obligations is hereby waived by Trustor.

26. WAIVER OF RIGHT TO JURY TRIAL. BENEFICIARY AND TRUSTOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS DEED OF TRUST; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN BENEFICIARY AND TRUSTOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF BENEFICIARY OR TRUSTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH BENEFICIARY OR TRUSTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

27. IRREVOCABLE. The trust created hereby is irrevocable by the Trustor.

28. COPY OF NOTICE. The undersigned Trustor requests that a copy of any Notice of Default and any notice of sale hereunder be mailed to him at his mailing address hereinbefore set forth.

29. TIME OF THE ESSENCE. Time of each payment and performance of each of Trustor's obligations pursuant to this Deed of Trust, the Loan Documents and each other instrument or obligation of Trustor secured hereby is specifically declared to be of the essence.

30. INDEMNITY. Trustor hereby agrees to defend, indemnify and hold Beneficiary free and harmless from and against any and all costs, damages, fees, expenses, loss, claims, judgments and liability, including but not limited to, attorneys' fees and court costs, which Beneficiary may sustain or incur, based upon, related to, or arising out of this Deed of Trust or any other Loan Documents or their enforcement (whether or not any lawsuit be brought, other than those resulting from Beneficiary's own gross negligence or willful misconduct).

31. RIGHTS CUMULATIVE. All rights and remedies of Beneficiary provided for herein are cumulative and shall be in addition to all other rights and remedies provided in the other Loan Documents, or at law or in equity.

32. INTEGRATION. This Deed of Trust and the Loan Documents set forth in full the terms of the agreement between the parties and the same may not be modified or amended except by a writing signed by the party against whom enforcement is sought.

33. GOVERNING LAW. This Deed of Trust shall be governed by and construed in accordance with the laws of the State of California.

Trustor:

QAD, INC.

By

Title

By

Title

STATE OF CALIFORNIA)
) ss.
COUNTY OF _____)

On _____, 1996, before me,_____
_____, Notary Public, personally appeared
_____, personally
known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

Witness my hand and official seal.

_____

(Seal)

[Legal description of Property omitted]

EXHIBIT 10.13

[QAD letterhead]

January 11, 1997

Dennis Raney
3645 Washington Street
San Francisco, California 94118

Dear Dennis:

It is with a great deal of pleasure that QAD Inc. extends this offer of employment to you. Your position will be a Senior Vice President, Finance and Administration, reporting to the Chief Executive Officer. This is an exempt position. Your primary job responsibilities will be discussed with you after you have started your employment. Your employment effective date of hire will be as soon as practical but within 2 weeks of acceptance of employment. Please bring with you on your start date acceptable evidence of eligibility to work in the United States.

The gross base salary per pay period (24 pay periods per year) will be $10,000.00. Your salary is based on a 40 hour standard work week.

In addition to your Base Salary, you will receive a Bonus according to the QAD Executive Team Compensation Program. The current plan calls for threshold, target and maximum bonus levels based on company and personal performance. In your case, the target bonus will be 20% of your Base Salary.

You will receive Stock Options of 50,000 shares at $25.00 per share with 5 year annual vesting (20%/20%/20%/20%/20% vesting schedule), commencing on your Start Date.

In the event that the Initial Public Offering of QAD stock (IPO) is priced at less that $30.00 per Share (adjusted for stock splits), your Stock Options will be repriced to the IPO Price less 15%. In the event that an IPO does not occur within 18 months of your State Date, you will have the option to convert your Stock Options to Stock Awards under the current QAD Stock Plan. The details of this conversion will be agreed upon by the parties within 3 months of your Start Date.

You will also receive 5,000 shares of Stock Awards according to the current QAD Stock Plan. These Stock Awards will have 2 your annual vesting (50%/50% vesting schedule), commencing on your Start Date.

You will receive a forgivable Relocation Loan of $100,000.

One third of the Relocation Loan will be forgiven on the first anniversary of your employment, an additional third will be forgiven on the second anniversary and the remaining third will be forgiven on the third anniversary. If you resign or are terminated for cause, you agree to repay the unforgiven part of the Relocation loan in 12 monthly installments at 10% interest.

QAD will offer the following severance agreement should you be involuntarily terminated from QAD without cause:

For up to 1 month of employment -- receive 12 months salary
After 1 month of employment -- receive 11 months salary
After 2 months of employment -- receive 10 months salary
After 3 months of employment -- receive 9 months salary
After 4 months of employment -- receive 8 months salary
After 5 months of employment -- receive 7 months salary
After 6 months of employment -- receive 6 months salary

As a full-time employee, you are eligible to participate in the health plan, flexible spending accounts and QAD Inc. 401(k) plan. The company provides you with benefit credits towards your purchase of these programs. Benefits begin on the 31st day from your date-of-employment. You will be provided, under separate cover, a complete benefits package.

In addition to the benefits noted above, you will be eligible to participate in other company benefits including the Profit Sharing Plan and the Employee Stock Ownership Program. You will also receive all standard company-paid holidays, and 15 paid leave days per calendar year (1.25 days per month) to be used for sick time, vacation, or personal time off. Your new hire package contains detailed plan information pertaining to the benefits and programs listed above.

Employment with QAD Inc. is "at will," and either QAD Inc. or you have the discretion to terminate employment at any time and for any reason.

Upon accepting this offer and signing this letter, you hereby confirm that QAD Inc. has not breached or is in conflict with any non-competion agreement nor any agreement to keep confidential information acquired by you prior to joining QAD Inc.

Please sign this letter in the space provided as an indication of your acceptance of this offer. Return your signed acceptance to Lynn Porter, Human Resources Manager, located at 6450 Via Real, Carpinteria, California 93013. If we do not hear from you within 5 days of the date of this letter, this offer will become void.

We hope you will enjoy your new role with QAD Inc. We believe that you will enjoy the challenge and the opportunities that exist and will contribute to our mutual growth.

Sincerely,

/s/ KARL F. LOPKER
- ---
Karl F. Lopker
QAD Inc.
Chief Executive Officer

/s/ DENNIS R. RANEY
- ---
Applicant

January 15, 1997

Date

- ---

If you accept this offer, please let us know how you want your name listed on QAD phone lists:

DENNIS R. RANEY
- ---
PRINT CLEARLY

MASTER LICENSE AGREEMENT

MASTER LICENSE AGREEMENT dated as of this 30th day of June, 1995 by and between qad, inc., a California corporation with a principal place of business of 6450 Via Real, Carpinteria, California 93013 ("qad") and Progress Software Corporation, a Massachusetts corporation with a principal place of business of 14 Oak Park, Bedford, Massachusetts ("PSC").

WHEREAS, qad and PSC entered into a Value Added Reseller Agreement dated as of March 15, 1993, a Master VAR Amendment to the Agreement dated as of March 15, 1993, and a Second Amendment to the Value Added Reseller Agreement dated August ___, 1994 (the "Second Amendment") pursuant to which, among other things, qad obtained from PSC certain limited rights to use certain of the PROGRESS - -Registered Trademark- products of PSC (the "Second Amendment License") (collectively, the "VAR Agreement");

WHEREAS, qad has obtained the right to use certain of the PROGRESS - -Registered Trademark- products of PSC in accordance with the terms and conditions of the PSC shrinkwrap license agreement (the "Shrinkwrap License");

WHEREAS, qad and PSC entered into a Software Products License Agreement dated as of June 8, 1995 (the "Limited qad License") pursuant to which PSC obtained from qad certain limited rights for a six (6) month period to use certain of the MFG/PRO-Registered Trademark- products of qad;

WHEREAS, PSC distributes the PROGRESS-Registered Trademark- products, consisting of a fourth generation language and relational database management system, owned and/or licensed by PSC;

WHEREAS, qad distributes the MFG/PRO-Registered Trademark- products, consisting of a set of fully integrated manufacturing, distribution and financial management products, owned and/or licensed by qad and the PROGRESS - -Registered Trademark- products owned and/or licensed by PSC;

WHEREAS, qad desires to license MFG/PRO-Registered Trademark- to PSC and PSC desires to license PROGRESS-Registered Trademark- to qad on the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. CERTAIN DEFINITIONS

1.1 "qad Products" means the software programs, identified on EXHIBIT A (as such exhibit is updated from time to time as reflected by the currently available software programs made available by qad), presently or in the future made commercially available by qad, in Object Code and Source Code form distributed by qad under the MFG/PRO-Registered Trademark- trademark or any successor thereto (including those qad Products licensed by PSC pursuant to the Limited qad License), including, but not limited to, any and all Documentation and any and all Updates or New Releases. "qad Products" shall not include any Restricted Software.

1.2 "PSC Products" means the software programs, identified on EXHIBIT A (as such exhibit is updated from time to time as reflected by the currently available software programs made available by PSC), presently or in the future made commercially available by PSC, in Object Code form (or in Source Code form in the event PSC makes Source Code commercially available) distributed by the Enterprise Division of PSC under the PROGRESS-Registered Trademark- or any successor thereto (including those PSC Products licensed by qad pursuant to the Second Amendment License and the Shrinkwrap License), any and all Documentation and any and all Updates or New Releases. "PSC Products" shall not include any Restricted Software.

1.3 "Software" means the PSC Products as licensed to qad by PSC or the qad Products as licensed to PSC by qad. "Software" shall not include any Restricted Software.

1.4 "New Release" means any modification or addition to the Software that changes the overall utility or functional capability.

1.5 "Update" means any modification or addition to the Software that fixes bugs or provides minor functionality enhancements and does not change overall utility, functional capability or application of the Software.

1.6 "Documentation" means the generally available user manuals for the Software and the technical support bulletin accompanying currently available commercial versions of Software.

1.7 "Object Code" means a copy of the Software or portions thereof in which the Source Code of the Software has been converted or translated into the machine language of the computer with which it is intended to be used.

1.8 "Source Code" means a copy of the Software or portions thereof written in a programming language employed by computer programmers which must be translated into the language of a machine before it can be executed.

1.9 "User" means PSC and any and all Subsidiaries of PSC, to the extent it holds a license to use the qad Products and qad and any and all Subsidiaries of qad to the extent it holds a license to use the PSC Products.

1.10 "Licensor" means PSC to the extent it is acting as the licensor of the PSC Products to qad and qad to the extent it is acting as the licensor of the qad Products to PSC.

1.11 "Software Administrator" means the person or persons, identified in EXHIBIT C (as such exhibit may be updated from time to time by written notice to the other party), performing the functions enumerated herein.

1.12 "Derivative Work" means a revision, modification, translation, abridgment, condensation, expansion, or any recasting, transformation, or adaptation of the Source Code.

1.13 "License" means the right to use the Software at User's facilities in accordance with the terms and conditions as granted by Sections 2.1 and 2.2 hereof and as set forth herein, provided, User may not use the Software in connection with any service bureau, facilities management or any other Software rental arrangement.

1.14 "Subsidiary" means a direct or indirect subsidiary corporation of qad in which qad holds more than a 50% equity interest and which are identified on EXHIBIT B, as such exhibit is updated from time to time by written notice to PSC, and a direct or indirect majority owned subsidiary corporation of PSC in which PSC

holds more than a 50% equity interest and which are identified on EXHIBIT B, as such exhibit is updated from time to time by written notice to qad.

1.15 "Restricted Software" means any software programs or products, whether presently or in the future made commercially available by PSC or qad, which are subject to an agreement with a third party licensor or licensors subjecting such software programs or products to a license fee or royalty due to a third party licensor in the event such software programs or products are licensed.

2. LICENSES

2.1 qad, as Licensor, grants to PSC, as User, and PSC, as User, accepts from qad, as Licensor, a royalty-free, worldwide, perpetual, non-transferable, non-exclusive right and license, unlimited as to number of users, number of languages and class of machine, to use qad's Products for PSC's internal information management and internal data processing purposes and to create Derivative Works for PSC's internal information management and internal data processing purposes.

2.2 PSC, as Licensor, grants to qad, as User, and qad, as User, accepts from PSC, as Licensor, a royalty-free, worldwide, perpetual, non-transferable, non-exclusive right and license, unlimited as to number of users, number of languages and class of machine, to use and display PSC's Products for qads internal information management and internal data processing purposes and for use in connection with qad's efforts to develop, market, distribute and license

the qad Products, including, but not limited to, development, internal and external training, technical support and sales demonstrations of the qad Products.

2.3 User acknowledges that Licensor or its licensor retain all title, copyright and other proprietary rights in and to the Software and that User will obtain only such rights to use the Software as are expressly provided herein.

2.4 Each party shall identify in writing to the other any Restricted Software. In the event that a User desires to license the Restricted Software, Licensor shall license such Restricted Software to the User on terms and conditions at least as advantageous as the

most advantageous terms and conditions Licensor has licensed the Restricted Software to any other party.

2.5 qad's obligations arising out of the VAR Agreement shall continue unabated, including, but not limited to, qad's "Cumulative Purchase" obligations as such are defined in the Second Amendment. The parties agree that a breach of qad's obligations under the VAR Agreement shall not constitute a breach of qad's obligations under this Agreement. Section 2 of the Second Amendment shall be superseded by the terms and conditions of this Agreement.

3. LICENSE TERM

3.1 The Term of any License to use the Software granted hereunder begins on "Delivery". "Delivery" occurs on the date the Software is delivered to the carrier for shipment or, if delivered in person, when delivered.

4. DELIVERY; PAYMENT; TAXES

4.1 Promptly upon execution of this Agreement, Licensor shall deliver to the Software Administrator a master copy of the Software (by compact disk or other media for installation on the User's computers) and Documentation, and, from time to time, promptly upon the availability thereof, Licensor shall deliver to the Software Administrator a master copy of any and all Updates and New Releases. Notwithstanding the restriction on reproduction contained in Section 5.2 hereof, Software Administrator shall be responsible for and may reproduce and distribute the Software within Licensor's organization. All shipments of Software shall be F.O.B. Licensor's facility and uninsured, unless User requests in writing that Licensor obtain insurance on its behalf. User shall pay all shipping, handling, insurance and media reproduction costs.

4.2 Promptly upon execution of this Agreement, in consideration of the license granted herein, PSC shall pay to qad a one-time fee of [*].

4.3 All sales, use, personal property, withholding or other taxes relating to this Agreement shall be paid by User, except for taxes based on Licensor's net income.

[*] Confidential information omitted.

4.4 Notwithstanding any provisions to the contrary that might be set forth in a purchase order, the pre-printed terms and conditions on the face and reverse side of a purchase order shall not apply to or become part of the purchase order.

5. NON-DISCLOSURE; COPIES; REPORTS

5.1 User acknowledges that Software is the valuable proprietary and trade secret information of Licensor. User shall (i) limit use and disclosure of Software to its employees and to its consultants who agree to be bound by the terms of this Agreement; (ii) not provide or disclose any Software to another party; (iii) take all reasonably precautions to maintain the confidentiality of the Software.

5.2 User shall not alter, reverse engineer, decompile, or copy any Software, except that User may reproduce machine readable object code portions for back-up purposes and implementation of new releases and User may reproduce Source Code portions, if any, for back-up purposes and implementation of new

releases. All titles, trademarks, copyright notices and other proprietary markings must be reproduced on all permitted copies if any have been permitted by Licensor. User shall not remove any copyright or proprietary rights notice or identification which indicates Licensor ownership from any part of the Software, it being expressly understood and agreed that the existence of such copyright notice should not be construed as an admission or presumption that publication of the Software has occurred. User may copy, in whole or in part, any Documentation. Additional Documentation is available for a separate fee.

5.3 It is understood that User is entitled to disclose the Software to its customers on condition that such customers shall be bound by the same commitment undertaken under this Article.

5.4 Periodically, on reasonable request, the disclosing party may require the receiving party to furnish information relating to the receiving party's efforts to protect the disclosing party's trade secrets. The receiving party agrees to allow the disclosing party access to the receiving party's computer systems during normal business hours to verify appropriate protection of such trade secrets and usage of the Software; provided, that any such information obtained as a result of such access shall be deemed to be confidential information pursuant to the restrictions of Article 12 hereof.

5.5 Because of the unique and proprietary nature of the Software, it is understood and agreed that Licensor's remedies at law for a breach by User of its obligations under Sections 5.1, 5.2 and 5.3 will be inadequate and that Licensor shall, in the event of any such breach, be entitled to equitable relief (including without limitation provisional and permanent injunctive relief and specific performance) in addition to all other remedies provided under this Agreement or available to Licensor at law.

5.6 Within fifteen (15) days of each six month anniversary of the date hereof, User shall deliver to the Licensor a report identifying the geographic location of each copy of the Software for the User's internal information management and internal data processing purposes, the classification of the machines on which the software is in use and the number of users of such Software on such machines (the "Biannual Usage Report"). Notwithstanding the foregoing, qad shall not be obligated to include information related to use of the Software for sales demonstration purposes on any Biannual Usage Report.

6. MAINTENANCE SUPPORT AND OTHER SERVICES

6.1 User shall receive, [*], for a period of seven (7) years, maintenance services, as then currently being offered by Licensor. Licensor's current maintenance services include the following: access to Licensor's telephone support number for consultation by User. Availability shall be consistent with Licensor's then current practice. At this time, telephone consultation is for the installation and use of the current release of the Software. At the end of such seven (7) year period, qad and PSC shall review such maintenance service arrangement and determine whether to renew such arrangement and the terms of any such renewed arrangement.

6.2 User shall designate and identify to Licensor the location of three (3) centralized User help organizations. User shall designate primary and secondary internal maintenance support personnel who shall be responsible for supporting the Software within User's organization and for obtaining maintenance support from Licensor. User's primary and secondary internal maintenance support personnel shall be the only User personnel who obtain maintenance support from Licensor. The location of the centralized User help organizations and the primary and secondary internal maintenance

[*] Confidential information omitted.

support personnel are identified on EXHIBIT D attached hereto, as such exhibit may be updated from time to time by written notice to the other party. If, after reasonable efforts, any maintenance support personnel is unable to resolve any problem relating to the Software, such personnel may contact Licensor to assist providing support services.

6.3 Any maintenance support obtained by User from an agent of Licensor,

excluding any Subsidiary of Licensor, shall be subject to any terms and conditions agreed to by User and such agent. The parties acknowledge that any maintenance support services obtained from any agent of Licensor and outside of the terms and conditions of this Agreement.

6.4 The parties acknowledge that any services, other than maintenance support services, are outside of the terms and conditions of this Agreement and any party desiring to obtain such services from the other party may obtain such services from the other party at such party's standard rates.

7. SUBSIDIARIES

7.1 User shall be the guarantor of the obligations of any and all its Subsidiaries which use the Software pursuant to the terms and conditions of this Agreement.

8 DOUBLE BYTE ENABLEMENT

8.1 During the twelve (12) month period subsequent to the date hereof, PSC shall assign two developers to advance the double byte enablement technology of the PSC Products. Representatives of qad and PSC shall meet in July, 1995 to establish priorities for the advancement of the double byte enablement technology and thereafter in each quarterly period during such twelve (12) month development period, representatives of qad and PSC shall meet to review the progress of the advancement of the double byte enablement technology and to revise, if necessary, the priorities established for such double byte enablement.

8.2 Notwithstanding the foregoing, PSC shall use efforts as determined appropriate by PSC and consistent with PSC product strategy to advance the double byte enablement technology of the

PSC Products and notwithstanding any involvement of qad in establishing priorities for the advancement of the double byte enablement technology, qad agrees that qad shall have no right or interest in or to the double byte enablement technology or to any PSC Products containing such technology, nor shall qad's involvement entitle qad to any special terms or discount in connection with qad's purchase of double byte enabled PSC Products.

9. PATENT AND COPYRIGHT INDEMNIFICATION

9.1 LICENSOR SHALL DEFEND, INDEMNIFY AND HOLD USER HARMLESS FROM AND AGAINST ANY CLAIM BASED ON AN ALLEGATION THAT THE SOFTWARE INFRINGES A PATENT OR COPYRIGHT, BUT ONLY IF (I) LICENSOR IS NOTIFIED PROMPTLY IN WRITING OF SUCH CLAIM AND IS GIVEN SOLE CONTROL OF THE DEFENSE THEREOF AND OF ALL RELATED SETTLEMENT NEGOTIATIONS RELATING THERETO, AND (II) USER HAS INSTALLED ALL UPDATES AND NEW RELEASES IF SUCH UPDATED AND NEW RELEASES WOULD REMEDY ANY INFRINGEMENT CLAIM. NOTWITHSTANDING THE FOREGOING, LICENSOR SHALL NOT BE LIABLE TO USER FOR ANY CLAIM ARISING FROM OR BASED UPON THE ALTERATION OR MODIFICATION OF ANY OF THE SOFTWARE. THE PROVISIONS OF THIS SECTION STATE THE SOLE, EXCLUSIVE AND ENTIRE REMEDY OF THE USER, WITH RESPECT TO ANY CLAIM OF PATENT OR COPYRIGHT INFRINGEMENT BY ANY SOFTWARE.

Notwithstanding the foregoing, if Licensor reasonably determines that User's use of the Software is likely to be enjoined by reason of infringement or if Licensor reasonably determines that the Software is likely to become the subject of a claim of infringement, Licensor may, in its sole reasonable judgement, procure for User the right to continue using the Software or replace or modify the Software so that it becomes non-infringing (without degrading the performance characteristics of the Software).

10. LIMITED WARRANTY

10.1 LICENSOR WARRANTS SO LONG AS USER IS ENTITLED TO RECEIVE MAINTENANCE SUPPORT OR HAS PAID THE APPROPRIATE FEE AND IS RECEIVING MAINTENANCE SUPPORT, THE SOFTWARE WILL PERFORM SUBSTANTIALLY IN ACCORDANCE WITH THE DOCUMENTATION IN ALL MATERIAL ASPECTS.

10.2 OTHER THAN THE LIMITED WARRANTY SET FORTH ABOVE, LICENSOR MAKES NO WARRANTIES OR REPRESENTATIONS AS TO PERFORMANCE OF THE SOFTWARE OR AS TO ANY SERVICE PROVIDED BY LICENSOR.

10.3 TO THE EXTENT PERMITTED BY APPLICABLE LAW, ALL IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE ARE HEREBY EXCLUDED.

11. LIMITATION OF LIABILITY

11.1 The liability of Licensor, if any, for damages relating to any Software or services hereunder shall be limited to [*] and shall in no event include incidental or consequential damages of any kind even if Licensor has been advised of the possibility of such damages. The foregoing limitation of liability shall not apply to Licensor's defense and indemnification obligations set forth in Article 9 hereof.

12. CONFIDENTIALITY

12.1 It is recognized that each party under this Agreement may make available to the other confidential information related to the business of such party. Confidential information may include in any form, but is not limited to, processes, formulae, specifications, programs, instructions, source code for operating system-dependent routines, technical know-how, methods and procedures of operation, benchmark test results, business or technical plans and proposals; provided that such confidential information is (a) disclosed in written or tangible form clearly marked as being confidential or (b) disclosed orally, provided any such disclosure is summarized and identified as being confidential in a writing delivered to the receiving party within 10 days of disclosure. Except as required by law, regulation or legal process, it is agreed that confidential information made available by one party to another party under this Agreement shall: (a) be kept confidential by the receiving party; (b) be treated by the latter in the same way as it treats confidential information generated by itself; (c) not be used by the receiving party otherwise than in connection with the implementation of this Agreement: and (d) be divulged to such of the receiving party's personnel only as have a need to know and have undertaken to keep confidential information secret. Each party agrees to use all reasonable steps to ensure that

[*] Confidential information omitted.

the other party's confidential information is not disclosed by its employees or agents in violation of the provisions of this Article. The parties agree that the non-disclosure obligations of either party with respect to the Software shall be governed by the terms of Article 5 hereof.

12.2 The commitments pursuant to Section 12.1 shall continue during the term of this Agreement and survive the termination of this Agreement for five (5) years. These commitments shall cease if, but only to the extent that, confidential information: (a) is or becomes generally known or available to the public at large through no act or omission of the receiving party prior to the disclosure or has thereafter been furnished to the receiving party without restrictions as to disclosure or use; or (c) can be demonstrated, subsequent to disclosure, to be independently developed by the receiving party without use of any confidential information received from the disclosing party.

13. MODIFICATION RIGHTS

13.1 Licensor may provide some portions of Software in Source Code form and other portions in Object Code form. User may modify the Source Code. User may not modify any portion of the Object Code. User may not use Software without Object Code modules. The Object Code may contain license number, date of license and other license information. This information is placed in the Object Code portions to prevent unauthorized and unlicensed distributions of the Software. User may not subvert or change any of this information.

13.2 The parties hereby agree that the ownership of all intellectual property rights embodied in, or by and Derivative Works created by, or for, User under this Agreement, shall vest solely in Licensor. User hereby assigns all right title and interest in all such Derivative Works to Licensor.

13.3 Licensor hereby grants User a non-exclusive, non-transferable, royalty free license to use any Derivative Works created by, or for, Use in accord with the terms and conditions of this Agreement.

14. ACCESS TO SOURCE CODE

14.1 Licensor undertakes to deposit a copy of the latest version of the Software (including Updates thereto and New Releases thereof) and all documentation required for the maintenance and modification of the Source Code with the escrow agent.

14.2 All rights and Licenses granted under or pursuant to this Agreement by Licensor to User, including, but not limited to the right and license to the Source Code granted pursuant to this Article 14, are, and shall otherwise be deemed to be, for purposes of Sections 365(n) of the United States Bankruptcy Code, as now constituted or hereinafter amended (the "Bankruptcy Code"), licenses or rights to "intellectual property" as defined under Section 101(52) of the Bankruptcy Code. Licensor agrees that User, as licensee of such rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code. Licensor further agrees that, (a) in the event of the commencement of a bankruptcy proceeding by or against Licensor under the Bankruptcy Code, which proceeding is not dismissed within sixty (60) days, User shall be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, and same, if not already in its possession, shall be promptly delivered to User (i) upon written request therefor by User, unless Licensor elects to continue its obligations under this Agreement, or (ii) if not delivered under (i) above, upon the rejection of the Agreement by or on behalf of Licensor upon request therefor by User and (b) in the event that Licensor fails to provide a material maintenance obligation to which User is entitled after receiving written notice from User and reasonable opportunity to cure, User shall be entitled to a complete duplicate of (or complete access to, as appropriate) any such intellectual property and all embodiments of such intellectual property, and same, if not already in its possession, shall be promptly delivered to User upon written request therefor by User. User shall have a non-exclusive, worldwide right and license to use and modify the Source Code for purposes of maintenance and support of the Software. The parties agree that any Software Escrow Agreement, pursuant to which User is a beneficiary, is an agreement supplementary to this Agreement.

14.3 If the escrow agent or Licensor shall terminate the software escrow agreement for any reason. Licensor hereby agrees to appoint another escrow agent within a reasonable period of time.

15. TERMINATION AS TO SUBSIDIARIES

15.1 This Agreement shall terminate with respect to any Subsidiary in the event the User ceases to hold more than 50% equity interest in a subsidiary corporation or in the event of the acquisition of substantially all of the assets or the acquisition of a majority of the outstanding voting stock of a Subsidiary by means of merger, consolidation or otherwise with any other party which is not also a Subsidiary of User or any assignment, sublicense, sale, mortgage, or pledge by a Subsidiary of any License or Software (the "Acquired Subsidiary"); provided, that such Acquired Subsidiary shall be entitled to use the Software in its possession at the user levels, the machine classifications, location and the languages in use as reported in the Biannual Usage Report immediately preceding the date of consummation of the transaction upon execution of Licensor's then current end-user license agreement.

15.2 User's guaranty obligation set forth in Section 7.1 hereof shall terminate upon execution of an end-user license agreement by an Acquired Subsidiary.

15.3 An Acquired Subsidiary shall not receive any upgrade credit for any Software licensed from Licensor.

15.4 An Acquired Subsidiary's right to obtain maintenance support pursuant to the terms and conditions of this Agreement shall cease upon the date such Subsidiary becomes an Acquired Subsidiary. Licensor shall offer to such Acquired Subsidiary the right to obtain maintenance support from Licensor at Licensor's standard rates.

16. ACQUISITIONS

16.1 Subject to this Article 16, this Agreement and each License granted hereunder shall be binding upon PSC's and qad's successors or assigns, as the case may be.

16.2 As used in this Article 16, the following terms shall have the following meanings:

(a) "Seller" shall mean either PSC or qad depending upon whether PSC or qad is the subject of an Acquisition Transaction.

(b) "Acquisition Transaction" shall mean the acquisition of substantially all of the assets or the acquisition of a majority of the outstanding voting stock of Seller by means of a merger, consolidation or otherwise with any other party or any assignment, sublicense, sale, mortgage, or pledge by a Seller of any License or Software.

(c) "Acquiring Party" shall mean the party acquiring the Seller or a controlling equity interest in Seller or the assets of Seller or any party acquiring any License or Software by means of assignment, sublicense, sale mortgage, or pledge.

16.3 In the event of an Acquisition Transaction, Seller shall be entitled to use the Software in its possession at the user levels, the machine classifications, location, and the languages in use as reported in the Biannal Usage Report immediately preceding the date of consummation of the transaction upon execution of Licensor's then current end-user license agreement. In no event shall the Acquiring Party or any direct or indirect subsidiary corporation of the Acquiring party (other than the Seller and any Subsidiary at the time of the Acquisition Transaction) be permitted to use the Software unless such Acquiring Party or any direct or indirect subsidiary corporation of the Acquiring Party executes a user agreement with the Licensor of such Software and pays to such Licensor any and all applicable user fees.

16.4 A Seller shall not receive any upgrade credit for any Software licensed from Licensor.

16.5 A Seller's right to obtain maintenance support pursuant to the terms and conditions of this Agreement shall cease upon the occurrence of an Acquisition Transaction. Licensor shall offer to such Seller the right to obtain maintenance support from Licensor at Licensor's standard rates.

17. TERMINATION

17.1 A License granted under this Agreement shall remain in effect for its full term unless terminated if either party as a User is adjudicated as bankrupt under the United States Bankruptcy Code, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy law or other similar law, or upon assignment of a receiver, liquidator, assignee, trustee, custodian (or similar official) of either party as a User to this Agreement or any substantial part of their properties, or ordering the winding-up of or liquidation of the affairs of either of the parties to this Agreement as a User or if either party ceases business operations, the other party as a Licensor shall be entitled at its own discretion to terminate any License granted under this Agreement forthwith by written notification to the User.

17.2 If a Subsidiary is adjudicated as bankrupt under the United States Bankruptcy Code, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy law or other similar law, or upon assignment of a receiver, liquidator, assignee, trustee, custodian (or similar official) of Subsidiary or any substantial part of its properties, or ordering the winding-up of or liquidation of the affairs of the Subsidiary or if such Subsidiary ceases business operations, the Licensor shall be entitled at its own discretion to terminate any License granted under this Agreement forthwith by written notification to the Subsidiary, and, for purposes of Section 17.1, no License shall terminate with respect to the direct or indirect parent corporation (User) of such Subsidiary.

18. GENERAL

18.1 All notices required or permitted to be given under this Agreement shall be in writing and shall be sent by certified or registered mail, if to PSC to the address specified on the first page hereof, Attention: Director, Information Technology, if to qad to the address specified on the first page hereof, Attention: General Counsel, Americas Region. Either party may by such notice to the other party change such address.

18.2 All software products used for business purposes are complex and User is solely responsible for the evaluation of its software requirements, selection of any Software to satisfy those requirements, and verification of resulting data.

18.3 The waiver by any party of a breach or default by the other party of any provision of the Agreement shall not be construed as a waiver by such party of any succeeding breach or default by the other party of the same or another provision.

18.4 Neither Licensor nor User shall be liable for any delay for failure to take any action required hereunder (except for payment)

due to any cause beyond the reasonable control of Licensor or User as the case may be, including, but not limited to unavailability or shortages of labor, materials, or equipment, failure or delay in the delivery of vendors and suppliers and delays in transportation.

18.5 User agrees to comply with all applicable laws concerning the export and re-export of the Software including, without limitation, the export control laws of the United States and prevailing regulations which may be issued from time to time by the United States Department of Commerce. User will not directly or indirectly export or re-export any Product without first obtaining Licensor's written approval and any necessary United States export control license. User agrees, at its own expense, to indemnify and hold harmless Licensor from any and all costs (including reasonable attorney's fees), damages and expenses incurred by or awarded against Licensor as a result of any claims demands, or actions arising out of breach of this Section.

18.6 To the extent that any law, statute, treaty, or regulation by its terms as determined by a court, tribunal, or other government authority of competent jurisdiction, is in conflict with this Agreement, the conflicting terms of this Agreement shall be superseded only to the extent necessary by the terms required by such law, statute, treaty, or regulation. If any portion of this Agreement shall be otherwise unlawful, void, or for any reason unenforceable, then that provision shall be enforced to the maximum extent permissible so as to effect the intent of the parties. In either case, the remainder of this Agreement shall continue in full force and effect.

18.7 Except for any announcement intended solely for internal distribution by PSC or qad or any disclosure require by legal, accounting, or regulatory requirements beyond the reasonable control of PSC or qad, all media releases, public announcements, or public disclosures (including, but not limited to, promotional or marketing material) by PSC or qad or its employees or agents relating to this Agreement or its subject matter shall be coordinated with and approved in writing by PSC and qad prior to the release thereof. The parties agree to issue a mutually agreeable press release relating to the subject matter of this Agreement. qad shall not represent directly or indirectly that any qad Products provided by qad to PSC has been approved or endorsed by PSC or include the

name, trade name, trade mark, or symbol or PSC on a list of qad's customers without PSC's express written consent.

18.8 The provisions of Sections 4.3, 5.1, and 5.2 and Article 9, 10, 11 and 18 shall survive termination of this Agreement.

18.9 This Agreement (including the exhibits) constitutes the entire agreement between the parties and supersedes any prior understandings, agreements, or representations by or between the parties, written or oral, to the extent they related in any way to the subject matter hereof, including, but not limited to, the Second Amendment License, any Shrinkwrap License and the Limited qad License.

18.10 This Agreement shall be governed by the laws of the Commonwealth of Massachusetts without regard to its principles of conflicts of laws.

18.11 This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, but all together they constitute one and the same instrument and shall be sufficiently evidenced by any one of the executed counterparts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by respective duly authorized representatives as set forth below.

PROGRESS SOFTWARE CORPORATION

By: /s/ Chad Carpenter

Name: Chad Carpenter
Title: Senior Vice President

qad,inc.

By: /s/ Donald R. Cast

Name: Donald R. Cast
Title: Vice President

EXHIBIT A

Identification of Software

PSC Products	The Software identified on the attached U.S. Price Book (prices and other terms are not applicable)
qad Products	The Software identified on the attached MFG/PRO Price List (prices are not applicable)

[Attached price books and specific software and modules listed therein have been omitted]

EXHIBIT 21.1

COMPANY NAME--OWNED BY	INCORPORATED
QAD Inc.	California
QAD ASIA Limited	Hong Kong
Qad Brazil, Inc.	Delaware
QAD.china Inc.	Delaware
QAD Europe B.V.	Netherlands
Integral Software Beteilisgungs GmbH	Germany
Integral Software & Services GmbH	Germany
Integral Informationstechnik GmbH (2)	Germany
QAD Aktiebolag	Sweden
QAD.united kingdom Limited	United Kingdom
QAD France eurl	France
QAD Eastern Europe SP.z.oo	Poland
QAD.germany GmbH	Germany
QAD. Holdings Inc.	Australia
QAD Australia Pty. Limited	Australia
QAD India, Inc.	Delaware
QAD.japan k.k.	Japan
QAD.Latin America S.A. de C.V.	Mexico
QAD.mexico S.A. de C.V.	Mexico
QAD Software e Aplicativos Limitada (1)	Brazil
QAD USVI, Inc.	Virgin Islands

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(1) Owned 99.99% by QAD Brazil Inc., 0.01% by QAD Inc.

(2) 42% owned by unrelated third parties

EXHIBIT 23.1

The Board of Directors
QAD Inc.

The audits referred to in our report dated April 11, 1997, included the related financial statement schedule for the years ended December 31, 1994 and 1995, the one month period ended January 31, 1996 and the year ended January 31, 1997, included in the registration statement. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We consent to the use of our reports included herein and to the reference to our firm under the headings "Selected Consolidated Financial Data" and "Experts" in the prospectus.

KPMG PEAT MARWICK LLP

Los Angeles, California
June 3, 1997

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