

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## SCHEDULE TO Tender Offer Statement under Section 14(d)(1) or 13(e)(1) of the Securities Exchange Act of 1934

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### **QAD Inc.**

(Name of Subject Company (Issuer))

### **QAD Inc. (Issuer)**

(Name of Filing Person (Identifying Status as Offeror, Issuer or Other Person))

**Common Stock, par value \$.001 per share**  
(Title of Class of Securities)

**74727D 10 8**  
(CUSIP Number of Class of Securities)

**Roland Desilets, Esq.**  
**Executive Vice President, General Counsel**  
**and Secretary**  
**QAD Inc.**  
**6450 Via Real**  
**Carpinteria, California 93013**  
**(805) 684-6614**

(Name, address and telephone number of person authorized  
to receive notices and communications on behalf of filing person)

### **Copies to:**

**Blase P. Dillingham, Esq.**  
Manatt, Phelps & Phillips  
11355 West Olympic Blvd.  
Los Angeles, California 90064  
(310) 312-4000

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### Calculation Of Filing Fee

Transaction Valuation\*

Amount of Filing Fee\*

\$13,650,000

\$1,104.29

\* Estimated for purposes of calculating the amount of the filing fee only. The amount assumes the purchase of a total of 2,600,000 shares of the outstanding common stock, par value \$.001 per share, at the maximum tender offer price of \$5.25 per share.

The fee, calculated in accordance with Rule 0-11(b) of the Securities Exchange Act of 1934, is 0.0000809 of the transaction value.

☐ Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: N/A

Form or Registration No.: N/A

Filing Party: N/A

Date Filed: N/A

- ☐ Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- ☐ third-party tender offer subject to Rule 14d-1.
- ☒ issuer tender offer subject to Rule 13e-4.
- ☐ going-private transaction subject to Rule 13e-3.
- ☐ amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: ☐

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## SCHEDULE TO

This Issuer Tender Offer Statement on Schedule TO relates to the offer by QAD Inc., a Delaware corporation ("QAD"), to purchase up to 2,600,000 shares of common stock of QAD, par value \$.001 per share, or such lesser number of shares as is properly tendered and not properly withdrawn, at a price specified by QAD that is not in excess of \$5.25 per share nor less than \$4.75 per share, net to the seller in cash, without interest, at which QAD stockholders have indicated they are willing to sell their shares. QAD's offer is being made upon the terms and subject to the conditions set forth in the Offer to Purchase dated March 21, 2003 and in the related Letter of Transmittal which, as amended or supplemented from time to time, together constitute the offer and each of which is filed as an exhibit hereto. On the terms and subject to the conditions of the offer, QAD will determine the single per share price, not in excess of \$5.25 per share nor less than \$4.75 per share, that QAD will pay for shares properly tendered and not properly withdrawn in the offer taking into account the total number of shares so tendered and the prices specified by all stockholders tendering shares. This Issuer Tender Offer Statement Schedule TO is intended to satisfy the reporting requirements of Rule 13e-4(c) (2) of the Securities Exchange Act of 1934, as amended.

### Item 1. Summary Term Sheet.

The information set forth in the Summary Term Sheet in the Offer to Purchase by QAD dated March 21, 2003 (the "Offer to Purchase") attached hereto as Exhibit (a)(1)(i), is incorporated herein by reference.

### Item 2. Subject Company Information.

(a) The information set forth in "Section 9 ("Certain Information Concerning QAD") of the Offer to Purchase is incorporated herein by reference.

(b) The information set forth in the first paragraph Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions") of the Offer to Purchase is incorporated herein by reference.

(c) The information set forth in Section 7 ("Price Range of Shares; Dividends") of the Offer to Purchase is incorporated herein by reference.

### Item 3. Identity and Background of Filing Person.

(a) This Tender Offer Statement is filed by the subject company. The information set forth in Section 9 ("Certain Information Concerning QAD") and Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions") of the Offer to Purchase is incorporated herein by reference.

### Item 4. Terms of the Transaction.

(a) The following information set forth in the Offer to Purchase is incorporated herein by reference: (i) Section 1 ("Number of Shares; Proration"); (ii) Section 2 ("Purpose of the Tender Offer; Certain Effects of the Tender Offer"); (iii) Section 3 ("Procedures for Tendering Shares"); (iv) Section 4 ("Withdrawal Rights"); (v) Section 5 ("Purchase of Shares and Payment of Purchase Price"); (vi) Section 6 ("Conditions of the Tender Offer"); (vii) Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions"); (viii) Section 13 ("Certain United States Federal Income Tax Consequences"); and (ix) Section 14 ("Extension of the Tender Offer; Termination; Amendment").

(b) The information set forth in Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement;

**Item 5. Past Contacts, Transactions, Negotiations and Agreements.**

(e) The information set forth in Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions") of the Offer to Purchase is incorporated herein by reference.

**Item 6. Purposes of the Transaction and Plans or Proposals.**

(a), (b) and (c) The information set forth in Section 2 ("Purpose of the Tender Offer; Certain Effects of the Tender Offer") of the Offer to Purchase is incorporated herein by reference.

**Item 7. Source and Amount of Funds or Other Consideration.**

(a) The information set forth in Section 8 ("Source and Amount of Funds") of the Offer to Purchase is incorporated herein by reference.

(b) Not applicable.

(d) Not applicable.

**Item 8. Interest in Securities of the Subject Company.**

(a) and (b) The information set forth in Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions") of the Offer to Purchase is incorporated herein by reference.

**Item 9. Persons/Assets, Retained, Employed, Compensated or Used.**

(a) The information set forth in Section 15 ("Fees and Expenses") of the Offer to Purchase is incorporated herein by reference.

**Item 10. Financial Statements.**

(a) and (b) The information set forth in the Offer to Purchase under Section 9 ("Certain Information Concerning QAD), and on pages 41 through 63 of QAD's Annual Report on form 10-K for the fiscal year ended January 31, 2002, and pages 1-10 of QAD's Quarterly Report on Form 10-Q for the quarter ended October 31, 2002, is incorporated herein by reference.

**Item 11. Additional Information.**

(a) The information set forth in Section 11 ("Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Agreements; Certain Transactions") and Section 12 ("Legal Matters; Regulatory Approvals") of the Offer to Purchase is incorporated herein by reference.

(b) The information set forth in the Offer to Purchase and in the related Letter of Transmittal, as each may be amended from time to time, is incorporated herein by reference.

**Item 12. Exhibits.**

The index to exhibits appears on the page immediately following the signature page of this Schedule TO.

**Item 13. Information Required by Schedule 13E-3.**

Not applicable.

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**SIGNATURE**

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

QAD INC.

By: /s/ ROLAND DESILETS

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Name: Roland Desilets

Date: March 21, 2003

## EXHIBIT INDEX

### Exhibit No.

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(a)(1)(i)	Offer to Purchase dated March 21, 2003
(a)(1)(ii)	Letter of Transmittal (including Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9)
(a)(1)(iii)	Notice of Guaranteed Delivery
(a)(1)(iv)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
(a)(1)(v)	Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees
(a)(5)(i)	Press Release, dated March 20, 2003*
(a)(5)(ii)	Letter to Stockholders from the Chief Executive Officer of QAD Inc., dated March 21, 2003
(b)	None
(d)(i)	Stock Purchase Agreement between QAD Inc. and Recovery Equity Investors II, L.P. dated December 23, 1999**
(d)(ii)	Registration Rights Agreement between QAD Inc. and Recovery Equity Investors II, L.P. dated December 23, 1999**
(d)(iii)	Stockholders' Agreement between QAD Inc. and Recovery Equity Investors II, L.P. dated December 23, 1999
(d)(iv)	Warrant issued to Recovery Equity Investors II, L.P. dated December 23, 1999
(d)(v)	Form of Employee Retention Agreement between QAD Inc. and each of Kathleen M. Fisher, Vince Niedzielski, Roland B. Desilets, Jr., John Doordan, Daniel Lender, Michael Lodato, Valerie Miller and Cheryl Slomann.
(d)(vi)	Agreement to Escrow Funds between QAD Inc. and Kathleen M. Fisher
(d)(vii)	Second Amendment to Loan and Security Agreement between Foothill Capital Corporation and QAD Inc.
(d)(viii)	Form of Indemnity Agreement between QAD Inc. and each of its Current Directors***
(g)	None
(h)	None

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\* Previously filed on Schedule TO on March 21, 2003.

\*\* Incorporated by reference to QAD's Annual Report on Form 10-K for the year ended January 31, 2000 (Commission No. 0-22823).

\*\*\* Incorporated by reference to QAD's Registration Statement on Form S-1 (Commission No. 333-28441).

### QuickLinks

[Calculation Of Filing Fee](#)  
[SCHEDULE TO](#)

[Item 1. Summary Term Sheet.](#)  
[Item 2. Subject Company Information.](#)  
[Item 3. Identity and Background of Filing Person.](#)  
[Item 4. Terms of the Transaction.](#)  
[Item 5. Past Contacts, Transactions, Negotiations and Agreements.](#)  
[Item 6. Purposes of the Transaction and Plans or Proposals.](#)  
[Item 7. Source and Amount of Funds or Other Consideration.](#)

[Item 8. Interest in Securities of the Subject Company.](#)  
[Item 9. Persons/Assets, Retained, Employed, Compensated or Used.](#)  
[Item 10. Financial Statements.](#)  
[Item 11. Additional Information.](#)  
[Item 12. Exhibits.](#)  
[Item 13. Information Required by Schedule 13E-3.](#)

[SIGNATURE](#)  
[EXHIBIT INDEX](#)



**Offer to Purchase for Cash  
Up to 2,600,000 Shares of its Common Stock  
At a Purchase Price Not in Excess of \$5.25 Per Share  
Nor Less than \$4.75 Per Share**

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**THE TENDER OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MONDAY, APRIL 21, 2003, UNLESS THE TENDER OFFER IS EXTENDED.**

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QAD Inc., a Delaware corporation, is offering to purchase up to 2,600,000 shares of its common stock, par value \$.001 per share, at prices specified by you that are not in excess of \$5.25 per share nor less than \$4.75 per share, net to you in cash, without interest. Your tenders must be on the terms and subject to the conditions set forth in this document and the related Letter of Transmittal which, as amended and supplemented from time to time, together constitute the tender offer.

On the terms and subject to the conditions of the tender offer, QAD will determine the single per share price not in excess of \$5.25 per share nor less than \$4.75 per share net to you in cash, without interest, that it will pay for shares properly tendered in the tender offer, taking into account the total number of shares tendered and the prices specified by the tendering stockholders. QAD will select the lowest purchase price that will allow it to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, at prices not in excess of \$5.25 per share nor less than \$4.75 per share. All shares properly tendered at prices at or below the purchase price and not properly withdrawn will be purchased at the purchase price, on the terms and subject to the conditions of the tender offer, including the odd lot and proration provisions. QAD reserves the right, in its sole discretion, to purchase more than 2,600,000 shares, subject to applicable law. Shares tendered at prices in excess of the purchase price and shares not purchased because of proration provisions will not be purchased in the tender offer. If you own beneficially or of record less than 100 shares, tender all of them before the tender offer expires and complete the section entitled "Odd Lots" in the related Letter of Transmittal. QAD will purchase all of your shares properly tendered at or below the purchase price, without subjecting them to the proration procedure. See Section 1.

**The tender offer is not conditioned on any minimum number of shares being tendered. The tender offer is, however, subject to other conditions. See Section 6.**

Our shares are listed and traded under the trading symbol "QADI" on The Nasdaq National Market. On March 20, 2003, the last full trading day before the public announcement of the tender offer, the last closing price of our shares on Nasdaq was \$4.10 per share. You are urged to obtain current market quotations for our shares before deciding whether to tender your shares. See Section 7.

**Our Board of Directors has approved the tender offer. However, neither we nor our Board of Directors nor the dealer manager make any recommendation to you as to whether you should tender or refrain from tendering your shares. You must make your own decision as to whether to tender your shares and, if so, how many shares to tender. You should discuss whether to tender all or any portion of your shares with your broker or other financial and tax advisors. One of our directors and one of our executive officers have advised us that they currently intend to tender a total of 28,750 shares in the tender offer. Our other directors and executive officers have advised us that they do not intend to tender any shares in the tender offer. See Sections 2 and 11.**

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The dealer manager for the tender offer is:

**SG Cowen**

March 21, 2003

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**IMPORTANT**

If you wish to tender all or any part of your shares, you must do one of the following before our tender offer expires:

- if you hold certificates in your own name, complete and sign a Letter of Transmittal according to its instructions, and deliver it, together with any required signature guarantees, the certificates for your shares and any other documents required by the Letter of Transmittal, to American Stock Transfer & Trust Company, the depository for our tender offer; or
- if your shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, you must contact

the nominee and have the nominee tender your shares for you; or

- if you are an institution participating in The Depository Trust Company, which we call the "book-entry transfer facility" in this Offer to Purchase, tender your shares according to the procedure for book-entry transfer described in Section 3.

If you want to tender your shares but:

- your certificates for the shares are not immediately available or cannot be delivered to the depository by the expiration of our tender offer; or
- you cannot comply with the procedure for book-entry transfer by the expiration date of our tender offer; or
- your other required documents cannot be delivered to the depository by the expiration date of our tender offer;

you can still tender your shares if you comply with the guaranteed delivery procedure described in Section 3.

If you have any questions, need assistance or require additional copies of this Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery, you should contact Morrow & Co., Inc, the information agent for the tender offer, or SG Cowen Securities Corporation, the dealer manager for the tender offer, at their respective addresses and telephone numbers set forth on the back cover page of this Offer to Purchase.

**We have not authorized any person to make any recommendation on our behalf as to whether you should tender or refrain from tendering your shares in the tender offer. You should rely only on the information contained in this Offer to Purchase and the related Letter of Transmittal and any document to which we have referred you. We have not authorized any person to give any information or to make any representation in connection with the tender offer other than those contained in this Offer to Purchase or in the related Letter of Transmittal. If anyone makes any recommendation or representation to you or gives you any information, you must not rely on that recommendation, representation or information as having been authorized by us or the dealer manager.**

We are not making this tender offer to, and will not accept any tendered shares from, stockholders in any jurisdiction where it would be illegal to do so. However, we may, at our discretion, take any actions necessary for us to make this offer to stockholders in any such jurisdiction.

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## TABLE OF CONTENTS

	Page
SUMMARY TERM SHEET	1
FORWARD-LOOKING STATEMENTS	5
THE TENDER OFFER	7
1. Number of Shares; Proration	7
2. Purpose of the Tender Offer; Certain Effects of the Tender Offer	9
3. Procedures for Tendering Shares	13
4. Withdrawal Rights	17
5. Purchase of Shares and Payment of Purchase Price	18
6. Conditions of the Tender Offer	19
7. Price Range of Shares; Dividends	21
8. Source and Amount of Funds	22
9. Certain Information Concerning QAD	22
10. Unaudited Pro Forma Financial Information	25
11. Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Arrangements; Certain Transactions	33
12. Legal Matters; Regulatory Approvals	36
13. Certain United States Federal Income Tax Consequences	36
14. Extension of the Tender Offer; Termination; Amendment	40
15. Fees and Expenses	41
16. Miscellaneous	41

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## SUMMARY TERM SHEET

*We are providing this summary term sheet for your convenience. It highlights material information in this document, but you should realize that it does not describe all of the details of the tender offer to the same extent described elsewhere in this Offer to Purchase. We urge you to read the entire Offer to Purchase and the related Letter of Transmittal because they contain the full details of the tender offer. We have included references to the sections of this Offer to Purchase where you will find a more complete discussion.*

### Who is offering to purchase my shares?

QAD Inc. is offering to purchase your shares of QAD common stock, par value \$.001 per share.

### What will the purchase price for the shares be?

We are conducting the offer through a procedure commonly called a "Modified Dutch Auction". This procedure allows you to select the price within a price range specified by us at which you are willing to sell your shares. The price range for the offer is \$4.75 per share to \$5.25 per share.

We will determine the purchase price that we will pay per share as promptly as practicable after the tender offer expires. The purchase price will be the lowest price at which, based on the number of shares tendered and the prices specified by the tendering stockholders, we can purchase 2,600,000 shares, or such lesser number of shares properly tendered. We will pay this purchase price in cash, without interest, for all the shares we purchase under the tender offer, even if some of the shares are tendered below the purchase price. See Section 1.

#### **How many shares will QAD purchase?**

We will purchase 2,600,000 shares in the tender offer, or such lesser number of shares as are properly tendered. 2,600,000 shares represents approximately 7.56% of our outstanding common stock as of February 28, 2003. We also expressly reserve the right to purchase more than 2,600,000 shares in the tender offer. In accordance with applicable legal requirements, we may purchase in the tender offer an additional number of shares not to exceed 2% of our currently outstanding shares of common stock (688,027 shares as of February 28, 2003) without extending the period of time during which the tender offer is open. See Section 1 and Section 14. The tender offer is not conditioned on any minimum number of shares being tendered. See Section 6.

#### **How will QAD pay for the shares?**

We intend to utilize our available cash to purchase the shares and pay expenses. We will need a maximum of approximately \$13.65 million to purchase 2,600,000 shares and approximately \$600,000 to pay related expenses. The tender offer is not subject to the receipt of financing by us. See Section 6 and Section 8.

#### **When does the tender offer expire; can the tender offer be extended?**

You may tender your shares until the tender offer expires. The tender offer will expire on Monday, April 21, 2003 at 5:00 p.m., New York City time, unless we extend it. See Section 1. We may choose to extend the tender offer for any reason, subject to applicable law. See Section 14.

#### **Can the tender offer be extended, amended or terminated and under what circumstances?**

We can extend, amend or terminate the tender offer in our sole discretion, subject to applicable law. If we extend the tender offer, we will delay the acceptance of any shares that have been tendered. See Section 14 for a more detailed discussion of our ability to extend, amend or terminate the tender offer.

#### **How will I be notified if QAD extends the tender offer?**

We will issue a press release by 9:00 a.m., New York City time, on the first business day after the previously scheduled expiration date of the tender offer period if we decide to extend the tender offer. See Section 14. We cannot assure you that the tender offer will be extended or, if extended, for how long.

#### **What is the purpose of the tender offer?**

We believe that the tender offer is consistent with our long-term corporate goal of increasing stockholder value and is a prudent and efficient means to provide immediate value to our stockholders. The offer permits tendering stockholders to have their shares repurchased at a premium ranging from approximately 15.85% to 28.05% over the closing price per share of our common stock on March 20, 2003, the last full trading day before the public announcement of the offer. In addition, stockholders who elect not to tender their shares may increase their relative percentage ownership in the company. See Section 2.

#### **Are there any conditions to the tender offer?**

Yes. The tender offer is subject to conditions including, but not limited to, no court and governmental action prohibiting the tender offer, no commencement or escalation of a war or armed hostilities, no significant decrease in the market price of our common stock or no decrease of 10% or greater in the market prices of equity securities generally in the United States and no changes in general market conditions or our business that, in our reasonable judgment, are or may be materially adverse to us. See Section 6.

#### **How do I tender my shares?**

Unless the tender offer is extended, shares must be tendered prior to 5:00 p.m., New York City time, on Monday, April 21, 2003. Depending on whose name the shares are registered in and who holds the certificates, you must do one of the following:

- deliver your share certificate(s) and a properly completed and duly executed Letter of Transmittal to the depository at the address appearing on the back cover page of this Offer to Purchase; or
- request a broker, dealer, commercial bank, trust company or other nominee to effect the transaction for you; or
- assure that the depository receives a confirmation of receipt of your shares by book-entry transfer and a properly completed and duly executed Letter of Transmittal.

In certain circumstances, you must comply with the guaranteed delivery procedure. Contact the information agent or the dealer manager for assistance. See Section 3 and the instructions to the Letter of Transmittal.

#### **Once I have tendered shares in the tender offer, can I withdraw my tender?**

Yes. You may withdraw any shares you have tendered at any time before 5:00 p.m., New York City time, on Monday, April 21, 2003, unless we extend the tender offer, in which case you can withdraw your shares until the expiration of the tender offer as extended. If we have not accepted for payment the shares you have tendered to us, you may also withdraw your shares at any time after 12:00 Midnight, New York City



**How do I withdraw shares I previously tendered?**

You must deliver on a timely basis a written or facsimile notice of your withdrawal to the depositary at the address appearing on the back cover page of this Offer to Purchase. Your notice of withdrawal must specify your name, the number of shares to be withdrawn and the name of the registered holder of the shares. Some additional requirements apply if the certificates for shares to be withdrawn have been delivered to the depositary or if your shares have been tendered under the procedure for book-entry transfer set forth in Section 3. See Section 4.

**If I decide not to tender, how will the offer affect my shares?**

Stockholders who choose not to tender will own a greater percentage interest in us following the offer. See Section 2.

**Has QAD or its Board of Directors adopted a position on the tender offer?**

Our Board of Directors has approved the tender offer. However, neither we nor our Board of Directors nor the dealer manager make any recommendation to you as to whether you should tender or refrain from tendering your shares. You must make your own decision as to whether to tender your shares and, if so, how many shares to tender. You should discuss whether to tender all or any portion of your shares with your broker or other financial and tax advisors. See Section 13.

**Will any directors or executive officers of QAD tender shares in the tender offer?**

One of our directors and one of our executive officers have advised us that they currently intend to tender a total of 28,750 shares in the tender offer. Our other directors and executive officers have advised us that they do not intend to tender any shares in the tender offer. Recovery Equity Investors II, L.P., an affiliate of one of our directors and whose shares may be deemed to be beneficially owned by such director, has also advised us that it does not intend to tender any shares in the tender offer. See Section 2 and Section 11.

**If I own less than 100 shares, and I tender all of my shares, will I be subject to proration?**

If you own beneficially or of record less than 100 shares, tender all of them before the tender offer expires and complete the section entitled "Odd Lots" in the related Letter of Transmittal, QAD will purchase all of your shares, properly tendered at or below the purchase price, without subjecting them to the proration procedure, if applicable.

**When and how will QAD pay me for the shares I tender?**

We will pay the purchase price, net in cash, without interest, for the shares we purchase promptly after the expiration of the tender offer and the acceptance of the shares for payment. We will pay for the shares accepted for purchase by depositing the aggregate purchase price with the depositary promptly after the expiration date of the tender offer. The depositary will transmit to you the payment for all your shares accepted for payment. See Section 5.

**Will I have to pay brokerage commissions if I tender my shares?**

If you are a registered stockholder and you tender your shares directly to the depositary, you will not incur any brokerage commissions. If you hold shares through a broker or bank, we urge you to consult your broker or bank to determine whether transaction costs are applicable. See Section 3.

**What are the United States federal income tax consequences if I tender my shares?**

Generally, you will be subject to United States federal income taxation when you receive cash from us in exchange for the shares you tender. The receipt of cash for your tendered shares will generally be treated for United States federal income tax purposes either as (1) a sale or exchange eligible for capital gains treatment or (2) a distribution, all or part of which may be subject to ordinary income tax rates. See Section 13.

**Will QAD's payments to me for my shares be subject to federal withholding tax?**

Any tendering stockholder or other payee who fails to complete fully, sign and return to the depositary, the Substitute Form W-9 included with the Letter of Transmittal may be subject to United States federal backup withholding tax on the gross proceeds paid to the stockholder or other payee in the tender offer. See Section 3. Also see Sections 3 and 13 regarding United States federal income tax consequences for foreign stockholders.

**Will I have to pay stock transfer tax if I tender my shares?**

If you instruct the depositary in the Letter of Transmittal to make the payment for the shares to the registered holder, you will not incur any stock transfer tax. See Section 5.

**Whom do I contact if I have questions about the tender offer?**

The information agent and the dealer manager can help answer your questions. The information agent is Morrow & Co., Inc. and the dealer manager is SG Cowen Securities Corporation. Their contact information is set forth on the back cover page of this Offer to Purchase.

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## FORWARD-LOOKING STATEMENTS

This Offer to Purchase, including the Summary Term Sheet, and the documents incorporated by reference in this Offer to Purchase contain statements that are not historical facts and constitute projections, forecasts or forward-looking statements. These statements may be identified by the use of forward-looking words or phrases such as "anticipate," "believe," "expect," "intend," "may," "planned," "potential," "possible," "should," "will" and "would." Such forward-looking statements are inherently subject to known and unknown risks and uncertainties. Our actual actions or results may differ materially from those expected or anticipated in the forward-looking statements. Some of the factors that might cause such a difference include, but are not limited to:

### Risks Related to our Business

- Our quarterly revenue, expenses and operating results have varied significantly in the past, and we anticipate that such fluctuations may continue in the future.
- A significant portion of our revenue in any quarter may be derived from a limited number of large, non-recurring license sales.
- Our service-related revenue may not reduce the quarterly fluctuations in our revenue.
- An economic recession or downturn in the United States or abroad may result in a reduction in our revenues and operating results.
- Our expense level is relatively fixed and is based, in significant part, on expectations of future revenue.
- Because of the significant fluctuations in our revenue, period-to-period comparisons may not be meaningful.
- Our products involve a long sales cycle and the timing of sales is difficult to predict.
- We are dependent on third-party products, particularly Progress software, and we are reliant on relationships with third-parties.
- The market for our 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.
- Our business will be negatively affected if we do not keep up with rapid technological changes, evolving industry standards and changing client requirements.
- We depend on our key personnel, and the loss of their services may adversely affect our business.
- New software releases and enhancements may adversely affect our software sales.
- We depend on our ability to sustain strong licensing demand.
- We depend on our ability to sustain strong maintenance contract renewal rates.
- The market for QAD eQ and other collaborative commerce solutions is uncertain.
- The underlying technology for our new applications is new and dependent on specific technologies.
- We have a history of reported net losses and there can be no assurance that we will consistently report net income.

- Acts of war or terrorism, or related effects such as disruptions in air transportation, enhanced security measures and political instability in certain foreign countries, may contribute to the current economic downturn and adversely affect our business, operating results and financial condition.
- Our target markets are concentrated and, as a result, we are dependent upon achieving success in those markets.
- Our operations are international in scope, which exposes us to additional risk, including currency-related risk.

### Risks Related to the Securities Markets

- Our principal stockholders may control our management decisions.
- Concentrations of ownership of our common stock may limit a stockholder's ability to influence corporate matters.

In addition, please refer to our Annual Report on Form 10-K for the fiscal year ended January 31, 2002, our Quarterly Reports on Form 10-Q for the quarters ended April 30, 2002, July 31, 2002 and October 31, 2002 and our Current Reports on Form 8-K filed on August 30, 2002, November 27, 2002, November 27, 2002 (as amended by Amendment No. 1 to Form 8-K filed on January 27, 2003, and as amended by Amendment No. 2 to form 8-K filed on February 14, 2003), February 19, 2003, March 5, 2003 and March 17, 2003, all of which are incorporated by reference herein, for information on these and other risk factors. You should assume that the information appearing in this Offer to Purchase is accurate as of the date on the front cover of this Offer to Purchase only. Our business, financial condition, results of operations and prospects

may have changed since that date, and, except as required by law, we undertake no obligation to make any revisions to the forward-looking statements contained in this Offer to Purchase or to update them to reflect events or circumstances occurring after the date of this Offer to Purchase. Notwithstanding any statement in this Offer to Purchase or in any document incorporated by reference in this Offer to Purchase, the safe harbor protections of the Private Securities Litigation Reform Act of 1995 are not available to statements made in connection with a tender offer.

## THE TENDER OFFER

### 1. Number of Shares; Proration.

**General.** Upon the terms and subject to the conditions of the tender offer, we will purchase 2,600,000 shares of QAD common stock, or such lesser number of shares as are properly tendered and not properly withdrawn in accordance with Section 4 before the scheduled expiration date of the tender offer, at prices not in excess of \$5.25 per share nor less than \$4.75 per share, net to the seller in cash, without interest.

The term "expiration date" means 5:00 p.m., New York City time, on Monday, April 21, 2003. We may, in our sole discretion, extend the period of time during which the tender offer will remain open, in which event the term "expiration date" shall refer to the latest time and date at which the tender offer, as so extended by us, shall expire. See Section 14 for a description of our right to extend, delay, terminate or amend the tender offer.

We reserve the right, in our sole discretion, to purchase more than 2,600,000 shares in the tender offer. In accordance with applicable regulations of the Securities and Exchange Commission, we may purchase in the tender offer an additional number of shares not to exceed 2% of our currently outstanding shares of common stock (688,027 shares as of February 28, 2003) without extending the period of time during which the tender offer is open. See Section 14.

In the event of an oversubscription of the tender offer, shares will be subject to proration as described below under "—Proration," except for "odd lots" (as defined below). The proration period and withdrawal rights also expire on the expiration date.

If we:

- increase the price to be paid for shares above \$5.25 per share or decrease the price to be paid for shares below \$4.75 per share,
- increase the number of shares that we may purchase in the tender offer by more than 2% of our currently outstanding shares,
- decrease the number of shares that we may purchase in the tender offer, or
- materially increase the dealer manager fee,

then the tender offer must remain open for at least ten business days following the date that notice of the increase or decrease is first published, sent or given in the manner specified in Section 14. If we make any other changes that require such a minimum offer period, we will comply with the requirements of applicable law. For purposes of the tender offer, a "business day" means any day other than a Saturday, Sunday or United States federal holiday and consists of the time period from 12:01 a.m. through 12:00 Midnight, New York City time.

**The tender offer is not conditioned on any minimum number of shares being tendered. The tender offer is, however, subject to other conditions. See Section 6.**

In accordance with Instruction 5 of the related Letter of Transmittal, stockholders desiring to tender shares must specify the price or prices, not in excess of \$5.25 per share nor less than \$4.75 per share, at which they are willing to sell their shares to us under the tender offer. As promptly as practicable following the expiration date, we will, in our sole discretion, determine the purchase price that we will pay for shares properly tendered under the tender offer and not properly withdrawn, taking into account the number of shares tendered and the prices specified by tendering stockholders. We intend to select the lowest purchase price, not in excess of \$5.25 per share nor less than \$4.75 net per share in cash, without interest, that will enable us to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, under the tender offer. Shares properly tendered under the tender

offer at or below the purchase price and not properly withdrawn will be purchased at the purchase price, upon the terms and subject to the conditions of the tender offer, including the odd lot and proration provisions. All shares tendered and not purchased under the tender offer, including shares tendered at prices in excess of the purchase price and shares not purchased because of proration provisions will not be purchased in the tender offer. Shares not purchased in the tender offer will be returned to the tendering stockholders at our expense as promptly as practicable following the expiration date.

If the number of shares properly tendered at or below the purchase price and not properly withdrawn prior to the expiration date is less than or equal to 2,600,000 shares, or such greater number of shares as we may elect to purchase, subject to applicable law, we will, upon the terms and subject to the conditions of the tender offer, purchase all shares so tendered at the purchase price.

**Priority of Purchases.** Upon the terms and subject to the conditions of the tender offer, if more than 2,600,000 shares, or such greater number of shares as we may elect to purchase, subject to applicable law, have been properly tendered and not properly withdrawn before the expiration date, we will purchase properly tendered shares on the basis set forth below:

- (a) we will purchase all shares properly tendered and not properly withdrawn before the expiration date by any odd lot holder who:

- (1) tenders all shares owned beneficially or of record by such odd lot holder at a price at or below the purchase price (tenders of less than all the shares owned by such odd lot holder will not qualify for this preference); and
  - (2) completes the section entitled "Odd Lots" in the related Letter of Transmittal and, if applicable, in the Notice of Guaranteed Delivery; and
- (b) after the purchase of all of the foregoing shares, we will purchase all other shares properly tendered at or below the purchase price and not properly withdrawn before the expiration date, on a pro rata basis with appropriate adjustments to avoid purchases of fractional shares.

**Odd Lots.** For purposes of the tender offer, the term "odd lots" shall mean all shares properly tendered prior to the expiration date and not properly withdrawn by any person, referred to as an "odd lot holder", who owns beneficially or of record an aggregate of fewer than 100 shares and so certifies in the appropriate place on the related Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery. To qualify for this preference, an odd lot holder must tender all shares owned beneficially or of record by the odd lot holder in accordance with the procedures described in Section 3. As set forth above, odd lots will be accepted for payment before proration, if any, of the purchase of other tendered shares. This preference is not available to partial tenders or to beneficial or record holders of an aggregate of 100 or more shares, even if these holders have separate accounts or certificates representing fewer than 100 shares. By accepting the tender offer, an odd lot holder who holds shares in its name and tenders its shares directly to the depository would not only avoid the payment of brokerage commissions, but also would avoid any applicable odd lot discounts in a sale of the holder's shares on Nasdaq. Any stockholder wishing to tender all of such stockholder's shares pursuant to the tender offer should complete the section entitled "Odd Lots" in the related Letter of Transmittal, and if applicable, in the Notice of Guaranteed Delivery.

We also reserve the right, but will not be obligated, to purchase all shares duly tendered by any stockholder who tenders all shares beneficially or of record owned and who, as a result of proration, would then beneficially or of record own an aggregate of fewer than 100 shares. If we exercise this right, it will increase the number of shares that it is offering to purchase in the tender offer by the number of shares purchased through the exercise of such right, subject to applicable law.

**Proration.** Upon the terms and subject to the conditions of the tender offer, if more than 2,600,000 shares, or such greater number of shares as we may elect to purchase, subject to applicable law, have been properly tendered and not properly withdrawn before the expiration date, we will purchase such properly tendered and not properly withdrawn shares on a pro rata basis with appropriate adjustments to avoid purchases of fractional shares. If proration of tendered shares is required, we will determine the proration factor promptly following the expiration date. Proration for each stockholder tendering shares, other than odd lot holders, shall be based on the ratio of the number of shares properly tendered and not properly withdrawn by such stockholder to the total number of shares properly tendered and not properly withdrawn by all stockholders, other than odd lot holders, at or below the purchase price. Because of the difficulty in determining the number of shares properly tendered, including shares tendered by guaranteed delivery procedures, as described in Section 3, and not properly withdrawn, and because of the odd lot procedure, we do not expect that we will be able to announce the final proration factor or commence payment for any shares purchased under the tender offer until five to seven business days after the expiration date. The preliminary results of any proration will be announced by press release promptly after the expiration date. Stockholders may obtain preliminary proration information from the information agent or the dealer manager and may be able to obtain such information from their brokers.

As described in Section 13, the number of shares that we will purchase from a stockholder under the tender offer may affect the United States federal income tax consequences to that stockholder and, therefore, may be relevant to a stockholder's decision whether or not to tender all or any portion of its shares.

This Offer to Purchase and the related Letter of Transmittal will be mailed to record holders of our common stock and will be furnished to brokers, dealers, commercial banks and trust companies whose names, or the names of whose nominees, appear on our stockholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of shares.

## 2. Purpose of the Tender Offer; Certain Effects of the Tender Offer.

**Purpose of the Tender Offer.** In accordance with its duties to our stockholders, our Board of Directors evaluates and assesses our operations, strategy and future direction. As part of this process, our Board has been reviewing, on an ongoing basis, among other issues, our current business and operations, our future operating and strategic objectives, our available cash and anticipated cash needs and possible alternative uses of our cash. Based upon this review, our Board has determined that the tender offer is a prudent use of our financial resources, that it is consistent with our long-term corporate goal of increasing stockholder value and is a prudent and efficient means to provide immediate value to our stockholders. The tender offer permits tendering stockholders to have their shares repurchased at a premium ranging from approximately 15.85% to 28.05% over the closing price per share of our common stock on March 20, 2003, the last full trading day before the public announcement of the offer.

The tender offer provides our stockholders who are considering a sale of all or a portion of their shares with the opportunity to determine the price or prices, not in excess of \$5.25 per share nor less than \$4.75 per share, at which they are willing to sell their shares and, subject to the terms and conditions of the tender offer and where shares are tendered by the registered owner thereof directly to the depository, to sell those shares for cash without the usual transaction costs associated with open market sales. In addition, odd lot holders who hold shares in their names and tender their shares directly to the depository and whose shares are purchased under the tender offer not only will avoid the payment of brokerage commissions but also will avoid any applicable odd lot discounts payable on a sale of their shares in a Nasdaq transaction.

The tender offer allows stockholders to sell a portion of their shares while retaining a continuing equity interest in us. Stockholders who do not accept the tender offer will realize a proportionate increase in their relative equity interest in us, subject to our right to issue additional shares and other equity securities in the future. In determining whether to tender shares under the tender offer, stockholders should consider the possibility that they may be able to sell their non-tendered shares in the future in the Nasdaq, or otherwise, including in connection with a sale of us, at a net price higher than the purchase price in the tender offer. We give no assurances, however, as to the price or prices at which a stockholder may be able to sell their non-tendered shares in the future.

The tender offer will also result in fewer shares outstanding (subject to possible exercises of options and/or warrants and our ability to issue additional shares in the future), which may make possible improved earnings per share for continuing stockholders if future earnings are achieved.

After the tender offer is completed, we believe that our anticipated cash flow from operations combined with our current cash and cash equivalents and funds available under our credit facility, will be sufficient to meet our cash needs for normal operations, anticipated capital expenditures and debt service for the foreseeable future. In addition, we do not believe that the consummation of the tender offer will foreclose possible future acquisitions by us.

However, our actual experience may differ significantly from our expectations and there can be no assurance that our action in utilizing a significant portion of our available cash in this manner will not adversely affect our ability to operate profitably, absorb possible losses, or service our debt in future periods. Future events may adversely or materially affect our business, expenses or prospects and could affect our available cash and our access to, and the cost of, external financial resources.

**Potential Risks and Disadvantages of the Tender Offer.** The tender offer also presents some potential risks and disadvantages to us and our continuing stockholders, including:

- Our continuing stockholders will bear a higher proportionate share of risk in the event of future losses.
- In the event that we complete the tender offer, our cash balances and in turn, the interest income we receive on our cash balances, will be significantly reduced. Assuming we purchase 2,600,000 shares in the tender offer at a purchase price not in excess of \$5.25 per share nor less than \$4.75 per share, the aggregate purchase price will be no greater than \$13.65 million. We expect that fees and expenses we incur related to the tender offer will be approximately \$600,000. The reduction in our cash balances could adversely affect our ability to operate profitably or absorb possible losses in future periods.
- The tender offer will probably reduce our "public float" (the number of shares owned by non-affiliate stockholders and available for trading in the securities markets). This reduction in our public float may result in lower stock prices and/or reduced liquidity in the trading market for our common stock following completion of the tender offer.
- The tender offer may increase the proportional holdings of certain significant stockholders and could increase the proportional holdings of our directors and executive officers, depending on the extent they elect to participate in the tender offer. In particular, Pamela M. Lopker, our Chairman of the Board and President, and, her husband, Karl F. Lopker, a director and our Chief Executive Officer, jointly, and as beneficial owners of various trusts and a charitable family foundation, hold 18,279,862 outstanding shares as of February 28, 2003. This aggregate amount represents approximately 53.14% of our outstanding shares and 45.18% of our shares on a "fully diluted basis." After the tender offer, assuming that we repurchase 2,600,000 shares of our common stock and the Lopkers do not tender any shares (they have advised us that they do not intend to tender any shares), the Lopkers will own approximately 57.48% of our outstanding

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shares and 48.28% of our shares on a "fully diluted basis." "Fully diluted basis" assumes the exercise of all warrants and unvested and vested options.

- Recovery Equity Investors II, L.P., an affiliate of one of our directors and whose shares may be deemed to be beneficially owned by such director, holds 3,002,778 outstanding shares (including 225,000 shares issuable upon exercise of warrants) which, as of February 28, 2003, represented approximately 8.67% of our outstanding shares. After the tender offer, assuming that we repurchase 2,600,000 shares of our common stock and Recovery Equity Investors II, L.P. does not tender any shares (it has advised us that it does not intend to tender any shares), Recovery Equity Investors II, L.P., will own approximately 9.38% of our outstanding shares.

See Section 11 for a more detailed discussion of beneficial ownership of our common stock by our major stockholders, directors and executive officers.

**Our Board of Directors has approved the tender offer. However, neither we nor our Board of Directors nor the dealer manager make any recommendation to stockholders as to whether they should tender or refrain from tendering their shares. We have not authorized any person to make any such recommendation. Stockholders must make their own decision as to whether to tender their shares and, if so, how many shares to tender and at what price. Stockholders should carefully evaluate all information in this Offer to Purchase and the related Letter of Transmittal and any document to which we have referred them. Stockholders should also consult their broker or other financial and tax advisors before making a decision as to whether they should tender or refrain from tendering all or any portion of their shares.**

**Certain Effects of the Tender Offer.** After completion of the tender offer, stockholders may be able to sell non-tendered shares on Nasdaq or otherwise at a net price higher or lower than the purchase price in the tender offer. We can give you no assurance, however, as to the price at which a stockholder may be able to sell his or her shares in the future.

Shares that we acquire pursuant to the tender offer will return to the status of authorized but unissued stock, and will be available for us to issue in the future without further stockholder action (except as required by applicable law or the rules of The Nasdaq National Market or any other securities exchange on which the shares are listed) for all purposes, including, without limitation, the acquisition of other businesses, the raising of

additional capital and the satisfaction of obligations under existing or future employee benefit compensation programs or stock plans.

Our shares are registered under the Securities Exchange Act of 1934, which requires, among other things, that we furnish information to our stockholders and to the Securities and Exchange Commission and comply with the Securities and Exchange Commission's proxy rules in connection with meetings of our stockholders.

Our completion of the tender offer will not result in the shares ceasing to be registered under the Securities Exchange Act of 1934.

Our purchase of shares in the offer will reduce the number of shares that might otherwise trade publicly. This may reduce the volume of trading in our shares and make it more difficult to buy or sell significant amounts of our shares without materially affecting the market price. Nonetheless, we anticipate that there will be a sufficient number of shares outstanding and publicly traded following consummation of the offer to ensure a continued trading market for the shares. Based upon published guidelines of Nasdaq, we do not believe that our completion of the tender offer will cause our remaining shares to be delisted from The Nasdaq National Market.

Our shares are currently "margin securities" under the rules of the Federal Reserve Board. This has the effect, among other things, of allowing brokers to extend credit to their customers using the

shares as collateral. We believe that, following the purchase of shares pursuant to the offer, the shares will continue to be "margin securities" for purposes of the Federal Reserve Board's margin regulations.

Except as disclosed in this Offer to Purchase, we currently have no plans, proposals or negotiations underway that relate to or would result in:

- any extraordinary transaction, such as a merger, reorganization or liquidation, involving us or any of our subsidiaries;
- any purchase, sale or transfer of an amount of our assets or any of our subsidiaries' assets which is material to us and our subsidiaries;
- any material change in our present dividend rate or policy, or our indebtedness or capitalization;
- any material change in our present Board of Directors or management, including, but not limited to, any plans or proposals to change the number or the term of directors (although we may fill vacancies arising on the Board of Directors) or to change any material term of the employment contract of any executive officer;
- any other material change in our corporate structure or business;
- any class of our equity securities ceasing to be authorized to be quoted on The Nasdaq National Market;
- any class of our equity securities becoming eligible for termination of registration under Section 12(g)(4) of the Securities Exchange Act of 1934;
- the suspension of our obligation to file reports under Section 13 of the Securities Exchange Act of 1934;
- the acquisition by any person of additional securities of QAD, or the disposition of securities of QAD; or
- any changes in our charter, bylaws or other governing instruments or other actions that could impede the acquisition of control of us.

We anticipate that we will close in the first fiscal quarter ending April 30, 2003 the sale of Mark Hill, a parcel of property located in Carpinteria, CA, for approximately \$3.5 million in cash.

We do not currently have any plans, other than as described in this document, that relate to or would result in any of the events described above. Notwithstanding the foregoing, we consider from time to time and may in the future evaluate opportunities for increasing stockholder value, and we may undertake or plan actions that relate to or could result in one or more of these events.

**Additional Purchases of our Common Stock.** In the future, we may purchase additional shares of our common stock in the open market, in private transactions, through tender offers or otherwise, subject to the approval of our Board of Directors. Future purchases may be on the same terms as this tender offer or on terms that are more or less favorable to stockholders than the terms of this tender offer. We currently intend to continue as a publicly-traded company, and, therefore, we do not plan to effect any stock repurchases that would cause our common stock to be ineligible to be listed on The Nasdaq National Market.

Notwithstanding the foregoing, Rule 13e-4 under the Securities Exchange Act of 1934 prohibits us and our affiliates from purchasing any shares, other than pursuant to the tender offer, until at least ten business days after the expiration date, except pursuant to certain limited exceptions provided in Rule 14e-5 under the Securities Exchange Act of 1934.

### 3. Procedures for Tendering Shares.

**Proper Tender of Shares.** For shares to be tendered properly pursuant to the tender offer:

- (1) the certificates for the shares (or confirmation of receipt of the shares under the procedure for book-entry transfer set forth below), together with a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof), including any required signature guarantees, or an "agent's message" (as defined below), and any other documents required by the Letter of Transmittal, must be received before 5:00 p.m., New York City time, on the expiration date by the depositary at its address set forth on the back cover page of this Offer to Purchase; or
- (2) the tendering stockholder must comply with the guaranteed delivery procedure set forth below.

**In accordance with Instruction 5 of the Letter of Transmittal, stockholders desiring to tender shares under the tender offer must properly indicate in the section captioned (1) "Price (in Dollars) Per Share at Which Shares Are Being Tendered" on the Letter of Transmittal the price (in multiples of \$0.05) at which shares are being tendered or (2) "Shares Tendered at Price Determined Under the Tender Offer" on the Letter of Transmittal that the stockholder will accept the purchase price determined by QAD in accordance with the terms of the tender offer.** Selecting the second option could result in receiving a per share price as low as \$4.75. Stockholders who desire to tender shares at more than one price must complete a separate Letter of Transmittal for each price at which shares are tendered, provided that the same shares cannot be tendered (unless properly withdrawn previously in accordance with Section 4) at more than one price. **To tender shares properly, one and only one price box must be checked in the appropriate section on each Letter of Transmittal.**

**In addition, odd lot holders who tender all shares must complete the section captioned "Odd Lots" in the Letter of Transmittal and, if applicable, in the Notice of Guaranteed Delivery, to qualify for the preferential treatment available to odd lot holders as set forth in Section 1.**

**Stockholders who hold shares through brokers or banks are urged to consult the brokers or banks to determine whether transaction costs are applicable if stockholders tender shares through the brokers or banks and not directly to the depositary.**

**Signature Guarantees and Method of Delivery. No signature guarantee is required if:**

- (1) the Letter of Transmittal is signed by the registered holder of the shares (which term, for purposes of this Section 3, includes any participant in The Depositary Trust Company, referred to as the "book-entry transfer facility," whose name appears on a security position listing as the owner of the shares) tendered and the holder has not completed either the box captioned "Special Delivery Instructions" or the box captioned "Special Payment Instructions" on the Letter of Transmittal; or
- (2) shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity that is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity that is an "eligible guarantor institution," as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934. See Instruction 1 of the Letter of Transmittal.

If a certificate for shares is registered in the name of a person other than the person executing a Letter of Transmittal, or if payment is to be made, or shares not purchased or tendered are to be issued, to a person other than the registered holder, then the certificate must be endorsed or accompanied by an appropriate stock power, in either case signed exactly as the name of the registered holder appears on the certificate, with the signature guaranteed by an eligible guarantor institution.

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In all cases, payment for shares tendered and accepted for payment pursuant to the tender offer will be made only after timely receipt by the depositary of certificates for the shares or a timely confirmation of the book-entry transfer of such shares into the depositary's account at the book-entry transfer facility as described above, a properly completed and duly executed Letter of Transmittal or a manually signed facsimile thereof, or an agent's message in the case of a book-entry transfer, and any other documents required by the Letter of Transmittal. **The method of delivery of all documents, including certificates for shares, the Letter of Transmittal and any other required documents, is at the election and risk of the tendering stockholder. If delivery is by mail, we recommend that stockholders use registered mail with return receipt requested, properly insured. In all cases, sufficient time should be allowed to ensure timely delivery.**

All deliveries made in connection with the tender offer, including a Letter of Transmittal and certificates for shares, must be made to the depositary and not to us, the dealer manager, the information agent or the book-entry transfer facility. Any documents delivered to us, the dealer manager, the information agent or the book-entry transfer facility will not be forwarded to the depositary and, therefore, will not be deemed to be properly tendered.

**Book-Entry Delivery.** The depositary will establish an account with respect to the shares for purposes of the tender offer at the book-entry transfer facility within two business days after the date of this Offer to Purchase, and any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of the shares by causing the book-entry transfer facility to transfer shares into the depositary's account in accordance with the book-entry transfer facility's procedures for transfer. Although delivery of shares may be effected through a book-entry transfer into the depositary's account at the book-entry transfer facility, either (1) a properly completed and duly executed Letter of Transmittal or a manually signed facsimile thereof, with any required signature guarantees, or an agent's message in the case of a book-entry transfer, and any other required documents must, in any case, be transmitted to and received by the depositary at its address set forth on the back cover page of this Offer to Purchase before the expiration date or (2) the guaranteed delivery procedure described below must be followed. Delivery of the Letter of Transmittal and any other required documents to the book-entry transfer facility does not constitute delivery to the depositary.

The term "agent's message" means a message transmitted by the book-entry transfer facility to, and received by, the depositary, which states that the book-entry transfer facility has received an express acknowledgment from the participant in the book-entry transfer facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that QAD may enforce such agreement against the participant.

**Federal Backup Withholding Tax.** Under the United States federal backup withholding tax rules, a portion of the gross proceeds (currently 30%) payable to a stockholder or other payee under the tender offer must be withheld and remitted to the United States Treasury, unless the

stockholder or other payee provides such person's taxpayer identification number (employer identification number or social security number) to the depository and certifies under penalties of perjury that such number is correct or otherwise establishes an exemption. In addition, if the depository is not provided with the correct taxpayer identification number or another adequate basis for exemption, the holder may be subject to certain penalties imposed by the Internal Revenue Service. Therefore, each tendering stockholder should complete and sign the Substitute Form W-9 included as part of the Letter of Transmittal in order to provide the information and certification necessary to avoid backup withholding, unless such stockholder otherwise establishes to the satisfaction of the depository that the stockholder is not subject to backup withholding. Specified stockholders (including, among others, all corporations and certain foreign stockholders (in addition to foreign corporations)) are not subject to these backup withholding and reporting requirements rules. In order for a foreign stockholder to qualify as an exempt recipient, that stockholder must generally submit an IRS Form W-8BEN or other applicable form, signed under

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penalties of perjury, attesting to that stockholder's exempt status. The applicable form can be obtained from the information agent. See Instructions 12 and 13 of the related Letter of Transmittal.

**To prevent federal backup withholding tax on the gross payments made to stockholders for shares purchased under the tender offer, each stockholder who does not otherwise establish an exemption from such withholding must provide the depository with the stockholder's correct taxpayer identification number and provide other information by completing the Substitute Form W-9 included with the Letter of Transmittal.**

For a discussion of United States federal income tax consequences to tendering stockholders that are U.S. holders (as defined in Section 13), see Section 13.

**Federal Income Tax Withholding on Payments to Foreign Stockholders.** Even if a foreign stockholder has provided the required certification as described above to avoid backup withholding, the depository will withhold United States federal income taxes at a rate of 30% of the gross payment payable to a foreign stockholder or his, her or its agent unless the depository determines that an exemption from, or a reduced rate of, withholding tax is available under a tax treaty or that an exemption from withholding is applicable because the gross proceeds are effectively connected with the conduct of a trade or business of the foreign stockholder within the United States. For this purpose, a foreign stockholder is any stockholder that is not a U.S. holder (as defined in Section 13). In order to obtain a reduced rate of withholding under a tax treaty, a foreign stockholder must deliver to the depository before the payment a properly completed and executed IRS Form W-8BEN. In order to obtain an exemption from withholding on the grounds that the gross proceeds paid under the tender offer are effectively connected with the conduct of a trade or business within the United States, a foreign stockholder must deliver to the depository a properly completed and executed IRS Form W-8ECI. A foreign stockholder may be eligible to obtain a refund of all or a portion of any tax withheld if they or it satisfies one of the "Section 302 tests" for capital gain treatment described in Section 13 or is otherwise able to establish that no withholding or a reduced amount of withholding is due. Federal backup withholding tax generally will not apply to amounts subject to the 30% or a treaty-reduced rate of federal income tax withholding.

**Foreign stockholders are urged to consult their tax advisors regarding the application of United States federal income tax withholding, including eligibility for a reduction of, or an exemption from, withholding tax, and the refund procedure. See Instruction 13 of the related Letter of Transmittal.**

**Guaranteed Delivery.** If a stockholder desires to tender shares pursuant to the tender offer and the stockholder's share certificates are not immediately available or cannot be delivered to the depository before the expiration date, or the procedure for book-entry transfer cannot be completed on a timely basis, or if time will not permit all required documents to reach the depository before the expiration date, the shares may nevertheless be tendered, provided that all of the following conditions are satisfied:

- (1) the tender is made by or through an eligible guarantor institution;
- (2) the depository receives by hand, mail, overnight courier or facsimile transmission, before the expiration date, a properly completed and duly executed Notice of Guaranteed Delivery in the form we have provided with this Offer to Purchase, specifying the price at which shares are being tendered, including (where required) a signature guarantee by an eligible guarantor institution in the form set forth in the Notice of Guaranteed Delivery; and
- (3) the certificates for all tendered shares, in proper form for transfer, or confirmation of book-entry transfer of such shares into the depository's account at the book-entry transfer facility, together with a properly completed and duly executed Letter of Transmittal, or a manually signed facsimile thereof, including any required signature guarantees, or an agent's message in the case of a book-entry transfer, and any other documents required by the Letter of Transmittal, are received by the depository within three Nasdaq National Market trading days after the date of receipt by the depository of the Notice of Guaranteed Delivery.

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**Return of Unpurchased Shares.** If any tendered shares are not purchased under the tender offer or are properly withdrawn before the expiration date, or if less than all shares evidenced by a stockholder's certificates are tendered, certificates for unpurchased shares will be returned promptly after the expiration or termination of the tender offer or the proper withdrawal of the shares, as applicable, or, in the case of shares tendered by book-entry transfer at the book-entry transfer facility, the shares will be credited to the appropriate account maintained by the tendering stockholder at the book-entry transfer facility, in each case without expense to the stockholder.

**QAD Options and Warrants.** QAD is not offering, as part of the tender offer, to purchase any options or warrants outstanding and tenders of options or warrants will not be accepted. Holders of options or warrants who wish to participate in the tender offer may exercise their options or warrants and purchase shares of common stock and then tender the shares under the tender offer, provided that any exercise of an option or warrant and tender of shares is in accordance with the terms of the applicable plan and option or warrant agreements. In no event are any options or warrants to be delivered to the depository in connection with a tender offer of shares hereunder. An exercise of an option or a warrant cannot be revoked even if all or a portion of the shares received upon the exercise and tendered in the tender offer are not purchased in the tender offer for



any reason.

**Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects.** All questions as to the number of shares to be accepted, the purchase price to be paid for shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of shares will be determined by us, in our sole discretion, and our determination will be final and binding on all parties. We reserve the absolute right to reject any or all tenders of any shares that we determine are not in proper form or the acceptance for payment of, or payment for which, we determine may be unlawful. We also reserve the absolute right to waive any of the conditions of the tender offer with respect to all stockholders or any defect or irregularity in any tender with respect to any particular shares or any particular stockholder, and our interpretation of the terms of the tender offer will be final and binding on all parties. No tender of shares will be deemed to have been properly made until all defects or irregularities have been cured by the tendering stockholder or waived by us. We will not, and none of the depository, the information agent, the dealer manager or any other person will be under any duty to give notice of any defects or irregularities in any tender or incur any liability for failure to give any such notice.

**Tendering Stockholder's Representation and Warranty; Acceptance by QAD Constitutes an Agreement.** A tender of shares under any of the procedures described above will constitute the tendering stockholder's acceptance of the terms and conditions of the tender offer, as well as the tendering stockholder's representation and warranty to us that:

- the stockholder has a "net long position," within the meaning of Rule 14e-4 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, in the shares or equivalent securities at least equal to the shares being tendered; and
- the tender of shares complies with Rule 14e-4.

It is a violation of Rule 14e-4 for a person, directly or indirectly, to tender shares for that person's own account unless, at the time of tender and at the end of the proration period or period during which shares are accepted by lot (including any extensions thereof), the person so tendering (1) has a net long position equal to or greater than the amount of (a) shares tendered or (b) other securities convertible into, or exchangeable or exercisable for, the shares tendered and will acquire the shares for tender by conversion, exchange or exercise and (2) will deliver or cause to be delivered the shares in accordance with the terms of the tender offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. Our acceptance for payment of shares tendered

16

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pursuant to the tender offer will constitute a binding agreement between the tendering stockholder and us upon the terms and conditions of the tender offer.

**Lost or Destroyed Certificates.** Stockholders whose certificates for part or all of their shares have been lost, stolen, misplaced or destroyed may contact American Stock Transfer & Trust Company, the transfer agent for our common stock, at (800) 937-5449 or (212) 936-5100 (New York and outside of the United States), for instructions as to obtaining a replacement certificate. That replacement certificate will then be required to be submitted together with the Letter of Transmittal in order to receive payment for shares that are tendered and accepted for payment. A bond may be required to be posted by the stockholder to secure against the risk that the lost, stolen, misplaced or destroyed certificates may be subsequently recirculated. Stockholders are urged to contact the transfer agent immediately in order to permit timely processing of this documentation and to determine if the posting of a bond is required.

Certificates for shares, together with a properly completed and duly executed Letter of Transmittal or facsimile thereof, or an agent's message in the case of shares tendered by book-entry transfer, and any other documents required by the Letter of Transmittal, must be delivered to the depository and not to us, the dealer manager or the information agent. Any documents delivered to us, the dealer manager or the information agent will not be forwarded to the depository and therefore will not be deemed to be properly tendered.

#### **4. Withdrawal Rights.**

Except as otherwise provided in this Section 4, tenders of shares pursuant to the tender offer are irrevocable. Shares tendered pursuant to the tender offer may be withdrawn at any time before the expiration date and, unless already accepted for payment by us pursuant to the tender offer, may also be withdrawn at any time after 12:00 Midnight, New York City time, on Monday, May 19, 2003.

For a withdrawal to be effective, a written or facsimile transmission notice of withdrawal must be timely received by the depository at its address set forth on the back cover page of this Offer to Purchase. Any notice of withdrawal must specify the name of the tendering stockholder, the number of shares to be withdrawn and the name of the registered holder of the shares. If the certificates for shares to be withdrawn have been delivered or otherwise identified to the depository, then, before the release of the certificates, the tendering stockholder must also submit the serial numbers shown on the particular certificates to the depository and the signature(s) on the notice of withdrawal must be guaranteed by an eligible guarantor institution, unless such shares have been tendered for the account of an eligible guarantor institution.

If shares have been tendered pursuant to the procedure for book-entry transfer set forth in Section 3, any notice of withdrawal also must specify the name and the number of the account at the book-entry transfer facility to be credited with the withdrawn shares and must otherwise comply with such book-entry transfer facility's procedures. All questions as to the form and validity (including the time of receipt) of any notice of withdrawal will be determined by us, in our sole discretion, which determination will be final and binding on all parties. Neither we nor any of the depository, the information agent, the dealer manager or any other person will be under any duty to give notice of any defects or irregularities in any notice of withdrawal or incur any liability for failure to give any such notice.

Withdrawals may not be rescinded and any shares properly withdrawn will be deemed not properly tendered for purposes of the tender offer unless the withdrawn shares are properly re-tendered before the expiration date by again following one of the procedures described in Section 3.

If we extend the tender offer, are delayed in our purchase of shares, or are unable to purchase shares in the tender offer for any reason, then, without prejudice to our rights under the tender offer,

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the depository may, subject to applicable law, retain tendered shares on our behalf, and the shares may not be withdrawn except to the extent tendering stockholders are entitled to withdrawal rights as described in this Section 4. Our reservation of the right to delay payment for shares that we have accepted for payment is limited by Rule 13e-4(f)(5) under the Securities and Exchange Act of 1934, which requires that we must pay the consideration offered or return the shares tendered promptly after termination or withdrawal of a tender offer.

## **5. Purchase of Shares and Payment of Purchase Price.**

Upon the terms and subject to the conditions of the tender offer, as promptly as practicable following the expiration date, we (1) will determine the purchase price we will pay for shares properly tendered and not properly withdrawn before the expiration date, taking into account the number of shares so tendered and the prices specified by tendering stockholders and (2) will accept for payment and pay for, and thereby purchase, shares properly tendered at prices at or below the purchase price and not properly withdrawn before the expiration date. For purposes of the tender offer, we will be deemed to have accepted for payment and therefore purchased shares that are properly tendered at or below the purchase price and not properly withdrawn, subject to the proration provisions of the tender offer, only when, as and if we give oral or written notice to the depository of its acceptance of the shares for payment under the tender offer.

Upon the terms and subject to the conditions of the tender offer, as promptly as practicable after the expiration date, we will accept for payment and pay a single per share purchase price for 2,600,000 shares, subject to increase or decrease as provided in Section 14, properly tendered, or such lesser number of shares as are properly tendered at prices not in excess of \$5.25 per share nor less than \$4.75 per share and not properly withdrawn as permitted in Section 4.

In all cases, payment for shares tendered and accepted for payment in the tender offer will be made promptly, but only after timely receipt by the depository of certificates for shares, or of a timely book-entry confirmation of shares into the depository's account at the book-entry transfer facility, and a properly completed and duly executed Letter of Transmittal, or manually signed facsimile of the Letter of Transmittal, or an agent's message in the case of a book-entry transfer, and any other required documents.

We will pay for shares purchased in the tender offer by depositing the aggregate purchase price for the shares with the depository, which will act as agent for tendering stockholders for the purpose of receiving payment from us and transmitting payment to the tendering stockholders.

In the event of proration, we will determine the proration factor and pay for those tendered shares accepted for payment promptly after the expiration date. However, we do not expect to be able to announce the final results of any proration and commence payment for shares purchased until approximately five to seven business days after the expiration date. Certificates for all shares tendered and not purchased, including shares not purchased due to proration, will be returned to the tendering stockholder, or, in the case of shares tendered by book-entry transfer, will be credited to the account maintained with the book-entry transfer facility by the participant who delivered the shares, at our expense promptly after the expiration date or termination of the tender offer without expense to the tendering stockholders. **Under no circumstances will we pay interest on the purchase price, including, but not limited to, by reason of any delay in making payment.** In addition, if certain events occur, we may not be obligated to purchase shares in the tender offer. See Section 6.

We will pay all stock transfer taxes, if any, payable on the transfer to us of shares purchased in the tender offer. If, however, payment of the purchase price is to be made to any person other than the registered holder, or if tendered certificates are registered in the name of any person other than the person signing the Letter of Transmittal, the amount of all stock transfer taxes, if any (whether imposed on the registered holder or the other person), payable on account of the transfer to the person will be

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deducted from the purchase price unless satisfactory evidence of the payment of the stock transfer taxes, or exemption therefrom, is submitted. See Instruction 7 of the Letter of Transmittal.

**Any tendering stockholder or other payee who fails to complete fully, sign and return to the depository the Substitute Form W-9 included with the Letter of Transmittal may be subject to United States federal backup withholding tax on the gross proceeds paid to the stockholder or other payee in the tender offer. See Section 3. Also see Section 13 regarding United States federal income tax consequences for foreign stockholders.**

## **6. Conditions of the Tender Offer.**

Notwithstanding any other provision of the tender offer, we will not be required to accept for payment, purchase or pay for any shares tendered, and may terminate or amend the tender offer or may postpone the acceptance for payment of, or the purchase of and the payment for shares tendered, subject to Rule 13e-4(f) under the Securities Exchange Act of 1934, if at any time on or after March 21, 2003 and before the expiration date any of the following events shall have occurred (or shall have been determined by us to have occurred) that, in our sole reasonable judgment and regardless of the circumstances giving rise to the event or events (except for any action or omission to act by us in connection with the tender offer), makes it inadvisable to proceed with the tender offer or with acceptance for payment:

- there has been threatened, instituted or pending before any court, authority, agency or other tribunal any action, suit or proceeding by any government or governmental, regulatory or administrative agency, authority or tribunal or by any other person, domestic, foreign or supranational, or any judgment, order or injunction entered, enforced or deemed applicable by any court, authority, agency or tribunal, which, directly or indirectly:
  - (1) challenges or seeks to make illegal, or to delay or otherwise directly or indirectly to restrain, prohibit or otherwise affect the making of the tender offer, the acquisition of some or all of the shares pursuant to the tender offer or otherwise relates in any manner to the tender offer; or
  - (2) in our reasonable judgment, could materially and adversely affect our, or our subsidiaries', business, condition (financial or

otherwise), income, operations or prospects, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of us and our subsidiaries, taken as a whole, or materially impair the contemplated benefits of the tender offer to us;

- there has been any action threatened, instituted, pending or taken, including any settlement, or any approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, invoked, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the tender offer or us or any of our subsidiaries, including any settlement, by any court, government or governmental, regulatory or administrative authority, agency or tribunal, domestic, foreign or supranational, that, in our reasonable judgment, could directly or indirectly:
  - (1) make the acceptance for payment of, or payment for, some or all of the shares illegal or otherwise restrict or prohibit consummation of the tender offer;
  - (2) delay or restrict our ability, or render us unable, to accept for payment or pay for some or all of the shares;
  - (3) materially impair the contemplated benefits of the tender offer to us; or
  - (4) materially and adversely affect our and our subsidiaries' business, condition (financial or otherwise), income, operations or prospects, taken as a whole, or otherwise materially

19

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impair in any way the contemplated future conduct of the business of us and our subsidiaries, taken as a whole;

- there has occurred any of the following:
  - (1) any general suspension of trading in, or limitation on prices for, securities on any United States national securities exchange or in the over-the-counter market;
  - (2) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred;
  - (3) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, whether or not mandatory;
  - (4) the declaration of a national emergency; the commencement or escalation of a war or armed hostilities; or other international or national act of terrorism or calamity directly or indirectly affecting the United States;
  - (5) any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that, in our reasonable judgment, could materially affect, the extension of credit by banks or other lending institutions in the United States;
  - (6) as measured from the close of business on Thursday, March 20, 2003, a significant decrease in the market price of our common stock, or a 10% or greater decrease in the New York Stock Exchange, the Nasdaq Composite Index, the Dow Jones Industrial Average, the S&P 500 Composite Index or the market prices of equity securities generally in the United States;
  - (7) any changes in the general political, market, economic or financial conditions in the United States or abroad that could have, in our reasonable judgment, a material adverse effect on our and our subsidiaries' business, condition (financial or otherwise), income, operations or prospects, taken as a whole, or on the trading in the shares of our common stock or on the benefits of the offer to us; or
  - (8) in the case of any of the foregoing existing at the time of the commencement of the offer, a material acceleration or worsening thereof.
- a tender or exchange offer for any or all of our outstanding shares (other than this tender offer), or any merger, acquisition proposal, business combination or other similar transaction with or involving us or any subsidiary, has been proposed, announced or made by any person or has been publicly disclosed;
- we learn that:
  - (1) any entity, "group" (as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934) or person has acquired or proposes to acquire beneficial ownership of more than 5% of our outstanding shares, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise (other than as and to the extent disclosed in a Schedule 13D or Schedule 13G filed with the Securities and Exchange Commission on or before March 20, 2003); or
  - (2) any entity, group or person who has filed a Schedule 13D or Schedule 13G with the Securities and Exchange Commission on or before March 20, 2003 has acquired or proposes to acquire, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise, beneficial ownership of an additional 2% or more of our outstanding

(3) any person, entity or group has filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, reflecting an intent to acquire us or any of our shares of common stock, or has made a public announcement reflecting an intent to acquire us or any of our subsidiaries or any of our respective assets or securities.

- any change or event is discovered or is threatened in our, or our subsidiaries', business, condition (financial or otherwise), assets, income, operations or prospects, taken as a whole, or in the ownership of our shares that, in our reasonable judgment, is or is reasonably likely to be material to us and our subsidiaries; or
- we determine that there is a reasonable likelihood that the completion of the offer and the purchase of the shares may otherwise cause the shares to be delisted from the Nasdaq National Market or cause us to no longer be subject to, or make us eligible to withdraw from, the periodic reporting requirements of the Exchange Act.

The conditions referred to above are for our sole benefit and may be asserted by us regardless of the circumstances (except for any action or omission to act by us in connection with the tender offer) giving rise to any condition, and may be waived by us with respect to all stockholders, in whole or in part, at any time and from time to time in our sole discretion prior to the expiration date. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of any right, and each such right will be deemed an ongoing right that may be asserted at any time and from time to time prior to the expiration of the offer. In certain circumstances, if we waive any of the conditions described above, we may be required to extend the expiration date. Any determination by us concerning the events described above will be final and binding on all parties.

## 7. Price Range of Shares; Dividends.

**Price Range of Shares.** Our common stock is traded under the trading symbol "QADI" on The Nasdaq National Market. The following table sets forth, for the fiscal quarters indicated, the high and low sale prices of our common stock on The Nasdaq National Market and our fiscal year ends January 31.

	High	Low
<i>Fiscal 2002:</i>		
First Quarter	\$ 3.88	\$ 2.06
Second Quarter	3.99	2.51
Third Quarter	3.50	1.62
Fourth Quarter	3.45	2.16
<i>Fiscal 2003:</i>		
First Quarter	\$ 5.33	\$ 2.60
Second Quarter	4.29	1.78
Third Quarter	2.23	1.40
Fourth Quarter	3.74	1.47
<i>Fiscal 2004:</i>		
First Quarter (through March 20, 2003)	\$ 4.25	\$ 3.14

On March 20, 2003, the last trading day before the announcement of the tender offer, the last reported sale price of the shares on Nasdaq was \$4.10 per share. **We urge stockholders to obtain current market quotations for the shares.**

**Dividends.** Our policy has been to reinvest earnings to fund future growth. Accordingly, we have not paid dividends and we do not anticipate declaring dividends on our common stock in the foreseeable future.

## 8. Source and Amount of Funds.

Assuming we purchase 2,600,000 shares in the tender offer at a purchase price of not in excess of \$5.25 per share nor less than \$4.75 per share, the aggregate purchase price will be no greater than \$13.65 million. We expect that the fees and expenses we incur related to the tender offer will be approximately \$600,000. We expect to fund our purchase of shares tendered in the tender offer and related fees and expenses from available cash on hand.

## 9. Certain Information Concerning QAD.

**General.** Historically, we have been recognized as a leading provider of enterprise resource planning (ERP) software applications for manufacturers. With the advent of the Internet, we advanced our manufacturing solutions to include e-business capabilities. With the development of enabling technologies, our solutions have advanced even further to include features that enable collaborative commerce for manufacturers. Today our solutions build on our core competency in multi-site manufacturing and distribution operations and help global manufacturers efficiently manage resources within and beyond the enterprise. Our solutions empower manufacturers to collaborate with their customers, suppliers and partners to make and deliver the right product, at the right cost and at the right time.

We have built a solid customer base of global Fortune 1000 manufacturers who are excellent prospects for our next generation collaborative commerce solutions. With a proven track record of over 20 years of industry leadership and approximately 5,200 installations of our software around the world, we are ideally qualified to meet the business and technology requirements of global manufacturing enterprises worldwide. We focus our efforts in select industry segments: automotive, consumer products, electronics, food and beverage, industrial and medical industries. We develop our products with constant and direct input from leading global manufacturers within the vertical markets we serve.

Our principal executive offices are located at 6450 Via Real, Carpinteria, California 93013. Our telephone number at that address is (805) 684-6614.

**Recent Developments.** On March 5, 2003, we announced our preliminary and unaudited financial results for the fiscal 2003 fourth quarter and year ended January 31, 2003.

For the fiscal 2003 fourth quarter, revenue increased 18 percent to \$57.1 million, from \$48.5 million in the fiscal 2003 third quarter and increased 6 percent from \$53.8 million in the same period last year. The TRW ISCS acquisition completed in November 2002 accounted for \$4.2 million of this revenue. License revenue in the fiscal fourth quarter was \$18.8 million, including \$300,000 contributed by the TRW ISCS acquisition. This represents 34 percent growth when compared with \$14.0 million in the preceding fiscal third quarter and a 4 percent decline when compared with \$19.6 million in the year ago quarter.

Net income for the fiscal 2003 fourth quarter was \$1.7 million, or \$0.05 per diluted share, and included a net loss of \$1.0 million, or \$0.03 per diluted share, related to the acquired TRW ISCS business. Net income also included a restructuring charge of \$2.1 million, or \$0.06 loss per diluted share, comprised of costs related to personnel reductions and the adjustment of previous facility consolidation estimates. Net income for the fourth quarter of fiscal 2002 was \$993,000, or \$0.03 per diluted share.

Gross margin for the fiscal 2003 fourth quarter remained steady at 62 percent when compared with the prior year fourth quarter. Although the increased mix of services business associated with the TRW

22

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ISCS acquisition applied downward pressure on the gross margin percentage, this impact was offset by a one-time benefit from the reduction of a prior royalty accrual. Operating expenses for the fiscal 2003 fourth quarter were up 3 percent over the fourth quarter of last year, primarily due to the TRW ISCS acquisition.

For the full fiscal year ended January 31, 2003, revenue was \$195.2 million, compared with \$205.8 million in fiscal 2002. License revenue was \$56.0 million for the 2003 fiscal year, compared with \$62.8 million last year. Excluding the impact of the TRW ISCS acquisition, full year fiscal 2003 total revenue was \$191.0 million and license revenue was \$55.7 million.

We reported a net loss of \$7.6 million for the 2003 fiscal year, equal to \$0.22 per diluted share, compared with a net loss of \$5.3 million, or \$0.16 per diluted share, in fiscal 2002. As noted above, the fiscal 2003 results include a net loss of \$1.0 million, or \$0.03 per diluted share, related to the TRW ISCS acquisition.

A copy of the press release announcing our preliminary and unaudited financial results was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 2003. Stockholders are urged to read this press release in its entirety.

**Recent Highlights.** During the fourth quarter, we received orders from 21 customers representing more than \$500,000 each in combined license, support and services billings, with five of these sales orders exceeding \$1 million.

Customer license transactions during the quarter included sales to Akzo Nobel, ArvinMeritor, Delphi, Dura Automotive Systems, Eaton, Enodis, Faurecia, Flexsys, Freudenberg & Co., GlaxoSmithKline, Metso, R. Twining & Co., Rockwell, Smiths Group PLC, TRW, Tsubaki Nakashima Co., and Tyco.

During the fourth quarter we expanded our strategic alliance with IBM to standardize the QAD eQ suite of intelligent order management applications on IBM's middleware platforms.

In fiscal 2003, we introduced the next-generation version of its flagship enterprise application suite, MFG/PRO eB2. Launched in September, the suite has been our most successful release to date, with nearly 200 shipments to customer sites as of the end of the fiscal year.

**Business Outlook.** For the three months ending April 30, 2003, we anticipate revenue of \$50 to \$53 million, resulting in break even to a small profit per diluted share, including the pending sale of Mark Hill, a parcel of property located in Carpinteria, California. For the fiscal year 2004, we currently expect revenue of \$210 to \$225 million and earnings per diluted share of \$0.15 to \$0.50. We expect no material impact on our current financial guidance as a result of this tender offer because we believe a reduction of 2,600,000 shares outstanding will be offset by the anticipated impact of stock options that become dilutive at current share prices.

A copy of the press release announcing our current financial guidance was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2003. Stockholders are urged to read this press release in its entirety.

The forward-looking information included in this Offer to Purchase is not to be regarded as fact and should not be relied upon as an accurate representation of future results. In addition, because the estimates and assumptions underlying the forward-looking information included in this Offer to Purchase are based upon events and circumstances that have not taken place and are inherently subject to significant financial, market, economic and competitive uncertainties and contingencies which are difficult or impossible to predict accurately and are beyond QAD's control, that information is inherently imprecise and there can be no assurance that these expected results can be realized. Therefore, it is expected that there will be differences between the actual and projected results and that the actual results may be materially higher or lower than those now expected. The inclusion of the

23

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forward-looking information set forth above should not be regarded as a representation by us or any of our affiliates or representatives that the projected results will be achieved. This forward-looking information was not prepared with a view towards public disclosure or complying with published guidelines of the Securities and Exchange Commission or guidelines established by the American Institute of Certified Public Accountants. This forward-looking information has not been examined, reviewed or compiled by our independent auditors, and accordingly they have not expressed an opinion or any other assurance on that information. We disclaim any current intention or obligation to update any forward-looking information related to its future performance, results of operations, anticipated revenue, or earnings per share calculated in accordance with generally accepted accounting principles.

**Additional Information.** We are subject to the informational filing requirements of the Securities and Exchange Act of 1934, and, accordingly, are obligated to file reports, statements and other information with the Securities and Exchange Commission relating to our business, financial condition and other matters. Information, as of particular dates, concerning our directors and executive officers, their remuneration, options granted to them, the principal holders of our securities and any material interest of these persons in transactions with us is required to be disclosed in proxy statements distributed to our stockholders and filed with the Securities and Exchange Commission. We have also filed an Issuer Tender Offer Statement on Schedule TO with the Securities and Exchange Commission that includes additional information relating to the tender offer.

These reports, statements and other information can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Copies of this material may also be obtained by mail, upon payment of the Securities and Exchange Commission's customary charges, from the Public Reference Section of the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The Securities and Exchange Commission also maintains a web site on the Internet at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission. The reference to the URL of the Securities and Exchange Commission's web site is intended to be an inactive textual reference only. Information about the Public Reference Room may be obtained by calling the Securities and Exchange Commission for more information at 1-800-732-0330.

**Incorporation by Reference.** The rules of the Securities and Exchange Commission allow us to "incorporate by reference" information into this document, which means that we can disclose important information by referring people to another document filed separately with the Securities and Exchange Commission. These documents contain important information about us, and we recommend that, in addition to this Offer to Purchase, you review the following materials which we have filed with the

24

Securities and Exchange Commission before making a decision on whether to elect to tender your shares.

SEC Filings	Period or Date Filed
Annual Report on Form 10-K	Year ended January 31, 2002
Quarterly Reports on Form 10-Q	Quarter ended October 31, 2002 Quarter ended July 31, 2002 Quarter ended April 30, 2002
Current Reports on Form 8-K	Filed March 18, 2003 Filed March 5, 2003 Filed February 19, 2003 Filed November 27, 2002 (as amended by Amendment No.1 to Form 8-K filed on January 27, 2003, and as amended by Amendment No. 2 to form 8-K filed on February 14, 2003) Filed November 27, 2002 Filed November 20, 2002
Proxy Statement	Filed May 10, 2002

Any of the documents incorporated by reference in this document can be obtained from us or from the Securities and Exchange Commission's web site at the address described above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents. Documents incorporated by reference in this Offer to Purchase can be obtained by requesting them in writing or by telephone from us at 6450 Via Real, Carpinteria, California 93013, telephone: (805) 566-5139. Those requesting documents should be sure to include their complete name and address in their request. If any incorporated documents are requested, we will mail them by first class mail, or another equally prompt means, within one business day after we receive the request.

#### 10. Unaudited Pro Forma Financial Information.

The following unaudited pro forma combined condensed consolidated financial information has been prepared to give effect to the acquisition of TRW ISCS and to the purchase for cash of QAD common stock pursuant to the tender offer as described below.

**Acquisition of TRW ISCS** On November 12, 2002, QAD Inc. ("QAD") acquired the TRW Integrated Supply Chain Solutions ("TRW ISCS") business covering 10 European countries and North America from BDM International, Inc. (a wholly-owned subsidiary of TRW Inc.) and TRW Inc. Prior to the acquisition, TRW ISCS, a QAD alliance partner per an agreement with QAD, operated businesses that primarily focused on systems installation, integration and services in connection with the MFG/PRO software owned and licensed by QAD and other QAD-related goods and services.

Under the terms of the Stock and Asset Purchase Agreement, QAD paid \$1 million in cash and incurred transaction costs, including direct acquisition costs, involuntary termination costs and facility related costs, of approximately \$5.7 million. The transaction included the purchase of the stock of BDM UK Limited ("BDM UK") and its thirteen wholly-owned European subsidiaries, the acquisition of assets and assumption of certain liabilities of the businesses in Germany and North America, and TRW Systems' agreement not to compete for the next 3 years. QAD funded the purchase price received by BDM International, Inc. and TRW Inc. with cash generated from operating activities. Pursuant to the agreement, BDM UK became a wholly-owned subsidiary of QAD. The acquisition is accounted for as a business combination and, accordingly, the total purchase price is allocated to the acquired assets, including goodwill and other intangible assets and liabilities at their fair values as of

November 12, 2002. QAD's historical consolidated statement of operations will not include revenue or expenses related to BDM UK prior to November 12, 2002.

The unaudited pro forma combined condensed consolidated balance sheet as of October 31, 2002 gives effect to the acquisition as if it had occurred on October 31, 2002, combining the historical consolidated balance sheet of QAD as of October 31, 2002 and the historical consolidated balance sheet of BDM UK as of November 12, 2002. The assets, liabilities and results of operations of the acquired North American business have been deemed immaterial for purposes of the pro forma financial information and are not included herein. The German business acquired is included in the financial position and results of operations of BDM UK as it was a wholly-owned subsidiary of BDM UK prior to the acquisition. Results of operations of the German business not acquired in the acquisition have been deemed immaterial for purposes of the pro forma financial information.

The historical balance sheet and statement of operations of BDM UK were originally stated in the British Pound and were presented in accordance with accounting principles generally accepted in the United Kingdom. No differences arose between accounting principles generally accepted in the United Kingdom from those of the United States for the periods presented in these unaudited pro forma financial statements. For purposes of the unaudited pro forma combined condensed consolidated balance sheet and statement of operations, BDM UK amounts have been translated into the United States Dollar and reclassified to conform to QAD presentation.

Pro forma financial statements require the presentation of income from continuing operations after income tax expense but before discontinued operations, extraordinary items, and cumulative effect of a change in accounting principle. Therefore, the cumulative effect change in accounting principle of \$1.1 million related to goodwill impairment under Statement of Financial Accounting Standards ("SFAS") 142 included in the historical statement of operations of QAD for the nine months ended October 31, 2002, has been omitted.

The combining companies have different year-ends for reporting purposes. BDM UK maintained its accounting records on a calendar basis, ending on December 31, and QAD maintains its accounting records on a fiscal basis, ending on January 31. The unaudited pro forma combined condensed consolidated statements of operations for the twelve months ended January 31, 2002 and the nine months ended October 31, 2002, gives effect to the acquisition as if it had occurred on February 1, 2001, combining the historical consolidated statements of operations of QAD for the fiscal year ended January 31, 2002 and the nine months ended October 31, 2002, with the historical consolidated statements of operations of BDM UK for the calendar year ended December 31, 2001 and the nine months ended September 30, 2002, respectively.

The unaudited pro forma combined condensed consolidated financial information has been prepared and should be read in conjunction with the historical consolidated financial statements and the related notes thereto of QAD, the "Management Discussion and Analysis of Financial Condition and Results of Operations," included in QAD's Annual Report on Form 10-K for the year ended January 31, 2002, QAD's Quarterly Report on Form 10-Q as of October 31, 2002 filed with the Securities and Exchange Commission, and the financial statements and related notes thereto of BDM UK for the calendar years ended December 31, 2001, 2000 and 1999 and the nine months ended September 30, 2002, included in our Amended Current Report on Form 8-K/A filed on February 14, 2003.

The pro forma adjustments do not reflect any operating efficiencies and cost savings that may be achieved with respect to the combined entity. The pro forma adjustments do not include any adjustments to historical revenue for any future price changes nor any adjustments to selling, marketing or any other expenses for any future operating changes.

The unaudited pro forma combined condensed consolidated financial information related to the TRW ISCS acquisition gives effect to the transaction using the purchase method of accounting. This financial information reflects certain assumptions and estimates deemed probable by management regarding the acquisition based upon the assets and liabilities acquired, including estimated involuntary termination and facility related costs. These estimates and assumptions are preliminary and have been made solely for purposes of developing this pro forma information. Unaudited pro forma combined condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the results that actually would have been realized had the entities been a single entity during this period. Additionally, the future consolidated financial position and results of operations will differ, perhaps significantly, from the pro forma amounts reflected herein because of a variety of factors, including access to additional information, changes in values not currently identified and changes in operating results, which could result in adjustment to, among other items, identifiable assets and goodwill. The purchase price allocation is preliminary and a final determination of required purchase accounting adjustments will be made upon the completion of a final analysis of the total purchase cost and the fair value of the assets and liabilities assumed, including estimated involuntary termination and facility related costs.

**Repurchase of QAD Common Stock** The unaudited pro forma consolidated financial information has been prepared to give effect to the purchase for cash of 2,600,000 shares at purchase prices of \$5.25 per share and \$4.75 per share and the payment of estimated fees and expenses of approximately \$600,000 pursuant to the tender offer. The unaudited pro forma combined condensed consolidated balance sheet has been prepared as if the tender offer had been completed on October 31, 2002. The unaudited pro forma combined condensed consolidated statements of operations have been prepared as if the tender offer had been completed as of February 1, 2001.

The tender offer will result in fewer shares outstanding (subject to possible exercises of options and/or warrants and our ability to issue additional shares in the future), which may make possible improved earnings per share for continuing stockholders if future earnings are achieved.

The unaudited pro forma financial information related to the tender offer reflects certain assumptions and estimates deemed probable by management. These estimates and assumptions are preliminary and have been made solely for purposes of developing this pro forma information. Unaudited pro forma combined condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the results that actually would have been realized had the offer taken place during the accounting periods presented. Additionally, the future consolidated financial position and results of operations may differ, perhaps significantly, from the pro forma amounts reflected herein because of a variety of factors, including the actual purchase price paid, the actual number of shares repurchased, and the actual costs incurred to effect the tender offer.

**QAD INC.**  
**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED BALANCE SHEETS**  
**AS OF OCTOBER 31, 2002**  
(In thousands, except share data)

	Historical (in USD)		Acquisition Related Pro forma			Tender Offer Pro Forma Adjustments				Pro Forma Results	
	QAD Inc. As of October 31, 2002	BDM UK As of November 12, 2002	Adjustments	Ref.	Combined	Assuming \$5.25 Purchase Price	Ref.	Assuming \$4.75 Purchase Price	Ref.	Assuming \$5.25 Purchase Price	Assuming \$4.75 Purchase Price
<b>Assets</b>											
Current assets:											
Cash and equivalents	\$ 48,139	\$ 1,785	\$ (1,000)	(a)	\$ 48,924	\$ (13,650)	(e)	\$ (12,350)	(e)	\$ 34,699	\$ 35,999
Accounts receivable, net	38,400	6,048			44,448	(575)	(f)	(575)	(f)	44,448	44,448
Other current assets	13,771	—	(64)	(d)	13,707					13,707	13,707
Total current assets	100,310	7,833			107,079					92,854	94,154
Property and equipment, net	20,998	705			21,703					21,703	21,703
Other assets, net	13,610	413	1,000	(a)	16,764					16,764	16,764
			5,671	(b)							
			(2,836)	(d)							
			(1,094)	(c)							
Total assets	\$ 134,918	\$ 8,951			\$ 145,546					\$ 131,321	\$ 132,621
<b>Liabilities &amp; stockholders' equity</b>											
Current liabilities:											
Current portion of long-term debt	\$ 1,743	\$ —			\$ 1,743					\$ 1,743	\$ 1,743
Accounts payable	7,513	3,465	(776)	(d)	10,202					10,202	10,202
Accrued expenses	26,624	3,399	1,281	(b)	33,570					33,570	33,570
			4,390	(b)							
			(2,124)	(d)							
Deferred revenue and other	50,573	993			51,566					51,566	51,566
Total current liabilities	86,453	7,857			97,081					97,081	97,081
Long-term debt	14,060	—			14,060					14,060	14,060
Other long-term liabilities	1,115	—			1,115					1,115	1,115
Stockholders' equity:											
Common stock	34	—			34					34	34
Additional paid-in capital	115,589	43,095	(43,095)	(c)	115,589					115,589	115,589
Treasury stock	—	—			—	(13,650)	(e)	(12,350)	(e)	(14,225)	(12,925)
						(575)	(f)	(575)	(f)		
Accumulated deficit	(74,917)	(42,001)	42,001	(c)	(74,917)					(74,917)	(74,917)
Accumulated other comprehensive loss	(7,416)	—			(7,416)					(7,416)	(7,416)
Total stockholders' equity	33,290	1,094			33,290					19,065	20,365
Total liabilities & stockholders' equity	\$ 134,918	\$ 8,951			\$ 145,546					\$ 131,321	\$ 132,621

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information.



**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED OCTOBER 31, 2002**  
(In thousands, except per share data)

	Historical (in USD)		Acquisition Related Pro forma			Tender Offer Pro Forma Adjustments				Pro Forma Results			
	Nine Months Ended					Assuming \$5.25 Purchase Price		Assuming \$4.75 Purchase Price		Assuming \$5.25 Purchase Price		Assuming \$4.75 Purchase Price	
	QAD Inc. October 31, 2002	BDM UK September 30, 2002				Ref.	Ref.	Ref.	Ref.	Ref.	Ref.		
	Adjustments	Ref.	Combined	Ref.	Ref.	Ref.	Ref.	Ref.					
Revenue:													
License fees	\$ 37,194	\$ 1,060			\$ 38,254					\$ 38,254	\$ 38,254		
Maintenance and other	78,534	3,652	\$ (242)	(g)	81,944					81,944	81,944		
Services	22,408	14,368	(65)	(g)	36,711					36,711	36,711		
Total revenue	138,136	19,080			156,909					156,909	156,909		
Operating expenses:													
Cost of license fees	6,171	627			6,798					6,798	6,798		
Other cost of revenue	47,116	16,307	(271)	(g)	63,152					63,152	63,152		
Sales and marketing	45,808	1,775	(36)	(g)	47,547					47,547	47,547		
Research and development	25,207	—			25,207					25,207	25,207		
General and administrative	15,910	4,465			20,375					20,375	20,375		
Amortization of intangibles from acquisitions	840	—	138	(h)	978					978	978		
Impairment loss	151	—			151					151	151		
Restructuring	3,192	—			3,192					3,192	3,192		
Total operating expenses	144,395	23,174			167,400					167,400	167,400		
Operating loss	(6,259)	(4,094)			(10,491)					(10,491)	(10,491)		
Other (income) expense:													
Interest income	(599)	(168)			(767)	\$ 165	(i)	\$ 150	(i)	(602)	(617)		
Interest expense	1,295	594			1,889					1,889	1,889		
Other (income) expense, net	416	—			416					416	416		
	1,112	426			1,538					1,703	1,688		
Loss before income taxes	(7,371)	(4,520)			(12,029)					(12,194)	(12,179)		
Income tax expense	900	112			1,012					1,012	1,012		
Net loss	\$ (8,271)	\$ (4,632)			\$ (13,041)					\$ (13,206)	\$ (13,191)		
Basic and diluted net loss per share	\$ (0.24)	\$ (0.13)			\$ (0.38)					\$ (0.42)	\$ (0.41)		
Basic and diluted weighted shares	34,403	34,403			34,403	(2,600)	(j)	(2,600)	(j)	31,803	31,803		

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information.

**QAD INC.**  
**UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEAR ENDED JANUARY 31, 2002**  
(In thousands, except per share data)

	Historical (in USD)		Acquisition Related Pro forma			Tender Offer Pro Forma Adjustments				Pro Forma Results		
	Twelve Months Ended					Assuming \$5.25 Purchase Price		Assuming \$4.75 Purchase Price		Assuming \$5.25 Purchase Price		Assuming \$4.75 Purchase Price
	QAD Inc. January 31, 2002	BDM UK December 31, 2002				Adjustments	Ref.	Combined	Ref.	Ref.	Ref.	Ref.
Revenue:												
License fees	\$ 62,820	\$ 1,310	\$ (39)	(g)	\$ 64,091					\$ 64,091	\$ 64,091	
Maintenance and other	103,624	4,646	(684)	(g)	107,586					107,586	107,586	
Services	39,341	24,394	(249)	(q)	63,486					63,486	63,486	

Total revenue	205,785	30,350		235,163		235,163	235,163
Operating expenses:							
Cost of license fees	12,396	538	(39) (g)	12,895		12,895	12,895
Other cost of revenue	74,605	27,119	(346) (g)	101,378		101,378	101,378
Sales and marketing	59,365	3,321	(587) (g)	62,099		62,099	62,099
Research and development	31,672	—		31,672		31,672	31,672
General and administrative	22,882	8,338		31,220		31,220	31,220
Amortization of intangibles from acquisitions	3,538	—	183 (h)	3,721		3,721	3,721
Impairment loss	2,066	—		2,066		2,066	2,066
Restructuring	93	—		93		93	93
Total operating expenses	206,617	39,316		245,144		245,144	245,144
Operating loss	(832)	(8,966)		(9,981)		(9,981)	(9,981)
Other (income) expense:							
Interest income	(1,365)	(288)		(1,653) \$	220 (i) \$	200 (i)	(1,433) (1,453)
Interest expense	2,359	1,179		3,538		3,538	3,538
Other (income) expense, net	587	—		587		587	587
	1,581	891		2,472		2,692	2,672
Loss before income taxes	(2,413)	(9,857)		(12,453)		(12,673)	(12,653)
Income tax expense	2,900	299		3,199		3,199	3,199
Net loss	\$ (5,313) \$	(10,156)		\$ (15,652)		\$ (15,872) \$	(15,852)
Basic and diluted net loss per share	\$ (0.16) \$	(0.30)		\$ (0.46)		\$ (0.50) \$	(0.50)
Basic and diluted weighted shares	34,055	34,055		34,055	(2,600) (j)	(2,600) (j)	31,455 31,455

See accompanying Notes to Unaudited Pro Forma Combined Condensed Consolidated Financial Information.

### QAD INC. NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following pro forma adjustments have been reflected in the unaudited pro forma combined condensed consolidated balance sheet and statements of operations:

- (a) Represents \$1.0 million cash consideration paid to finance the acquisition.
- (b) Represents the accrual for direct acquisition costs related to transaction fees, legal fees and accounting fees (\$1.3 million), and involuntary employee termination costs (\$2.8 million) and facility related costs (\$1.6 million).
- (c) Represents the elimination of BDM UK historical equity.
- (d) In accordance with the acquisition agreement, these amounts represent the forgiveness of amounts receivable and payable to TRW ISCS that arose prior to consummation of the acquisition. This forgiveness was consideration in determining the purchase price as detailed below.
- (e) Records the repurchase of 2,600,000 shares of our common stock at \$5.25 and \$4.75 per share via the tender offer as if it occurred on October 31, 2002.
- (f) Records the payment of estimated fees and expenses associated with the tender offer.
- (g) Represents the elimination of intercompany revenue and profit between QAD and BDM UK prior to the acquisition.
- (h) Represents the increase in amortization expense due to the acquisition of specifically identified intangible assets that include customer contracts, intellectual property and a non-compete agreement with the seller, as described below. Amortization was calculated on a straight-line basis over a period of three years.
- (i) Adjustment represents reduction in interest income at an annual average interest rate of 1.55% as if the tender offer occurred as of February 1, 2001.
- (j) Adjustment to weighted average shares outstanding to reflect the repurchase of 2,600,000 shares of our common stock through the tender offer as if it occurred as of February 1, 2001.

The calculation of the preliminary purchase price of TRW ISCS for the assets and liabilities acquired is presented below:

(in thousands):

Cash paid (see note a)	\$ 1,000
Acquisition related expenses (see note b)	5,671
Forgiveness of debt (see note d)	(2,836)
Total purchase price	\$ 3,835

Under Statement of Financial Accounting Standard No. 141, "Business Combinations," (SFAS 141) the total purchase price was allocated to the acquired assets and liabilities based on their estimated fair values. The total purchase price was allocated to tangible assets and liabilities, goodwill and identifiable intangible assets, as discussed below.

The allocation of the preliminary purchase price to the net assets acquired as of November 12, 2002 is presented below:

(in thousands):

<b>Assets:</b>	
Fair value of TRW ISCS assets	\$ 8,951
Goodwill	2,191
Customer contracts	250
Intellectual property	200
Non-compete agreement	100
	11,692
<b>Liabilities:</b>	
Fair value of TRW ISCS liabilities	(7,857)
Total purchase price	\$ 3,835

Specifically identified intangible assets include customer contracts, intellectual property acquired and a non-compete agreement with the seller. These intangible assets are included in "Other assets, net" on the accompanying pro forma balance sheet. Intellectual property is comprised of certain software developed by TRW ISCS that is complimentary to MFG/PRO, such as AIM Warehousing.

In valuing the intangible assets, an income-based approach was determined to best quantify the economic benefits and risks. The economic benefits were quantified using projections of net cash flows and the risks by applying an appropriate discount rate. The estimated fair value assigned to customer contracts, intellectual property and the non-compete agreement was \$0.3 million, \$0.2 million and \$0.1 million, respectively.

No deferred tax adjustment was made related to the TRW ISCS acquisition since QAD provided a valuation allowance to fully offset its deferred tax assets as of October 31, 2002. The valuation allowance was recorded after considering a number of factors, including the company's cumulative operating losses in fiscal 2002, 2001, and 2000. Based upon the weight of both positive and negative evidence regarding the recoverability of deferred tax assets, QAD concluded that a valuation allowance was required to fully offset the net deferred tax assets, as it is more likely than not that the deferred tax assets will not be realized.

# **11. Interest of Directors and Executive Officers; Transactions and Arrangements Concerning Securities of QAD; Stockholders' Agreement; Employment Agreements, Management Contracts and Change of Control Arrangements; Certain Transactions.**

**Interest of Directors and Executive Officers.** As of February 28, 2003, we had 34,401,335 outstanding shares of common stock, par value \$.001 per share, and 6,286,568 shares of common stock reserved for issuance upon exercise of outstanding stock options, warrants and other rights. The 2,600,000 shares QAD is offering to purchase under the tender offer represent approximately 7.56% of the shares outstanding as of February 28, 2003.

As of February 28, 2003, our directors and executive officers as a group (twelve persons) beneficially owned an aggregate of 21,943,445 shares of our common stock (including 761,350 shares issuable upon exercise of stock options, warrants or other rights that are or will become exercisable within sixty days of March 19, 2003), representing approximately 63.79% of our outstanding shares and fully vested and exercisable stock options, warrants and other rights. Our directors and executive officers are entitled to participate in the tender offer on the same basis as all other stockholders. One of our directors and one of our executive officers have advised us that they currently intend to tender a total of 28,750 shares in the tender offer. Our other directors and executive officers have advised us that they do not intend to tender any shares in the tender offer. Recovery Equity Investors II, L.P., an affiliate of one of our directors and whose shares may be deemed to be beneficially owned by such director, has also advised us that it does not intend to tender any shares in the offer.

The following table sets forth, as to each of our directors and executive officers and holders of 5% or more of our common stock (1) the number of shares and percentage of common stock beneficially owned as of February 28, 2003, (2) the number of shares issuable upon exercise

of options, warrants or other rights that are or will become exercisable within sixty days of March 19, 2003, (3) the number of shares expected to be tendered by such person in the tender offer and (4) assuming our purchase of 2,600,000 shares in the tender offer, the percentage which the number of shares being retained by such person would represent of the resulting outstanding shares. No subsidiary of QAD owns any of our securities.

Unless otherwise noted, the business address of the listed beneficial owner is c/o QAD Inc., 6450 Via Real, Carpinteria, California 93013, and the telephone number is (805) 684-6614.

Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned	Shares Covered by Exercisable Options, Warrants and Other Rights	Percent of Class	Number of Shares Expected to Be Tendered in the Tender Offer	Percent of Ownership After Tender Offer(2)
<b>Non-Executive 5% Beneficial Owners</b>					
Recovery Equity Investors II, L.P. 2505 Anthem Village Drive Suite E622 Henderson, NV 89052	2,777,778	225,000	8.67%	—	9.38%
<b>Directors and Executive Officers</b>					
Pamela M. And Karl F. Lopker	18,279,862(3)	—	53.14%	—	57.48%
Larry J. Wolfe	—	—	—%	—	—%
Barry Patmore	—	—	—%	—	—%
Jeffrey A. Lipkin	2,777,778(4)	225,000	8.67%	—	9.38%
A.J. Moyer	28,000	125,500	.44%	—	.48%
Peter R. Van Cuylenburg	45,000	28,125	.21%	22,500	.16%
Vincent P. Niedzielski	64(5)	144,825	.42%	6,250(5)	.43%
Kathleen M. Fisher	11,406	148,750	.46%	—	.50%
Roland Desilets	27,607	30,000	.17%	—	.18%
Valerie Miller	12,378	14,575	.08%	—	.08%
Murray W. Ray	—	44,575	.13%	—	.14%
All Directors and Executive Officers as a group (12 persons)	21,182,095	761,350	63.79%	28,750	68.91%

- (1) In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, shares of common stock that could be acquired by such person pursuant to options, warrants and other rights held by that person that are currently exercisable or exercisable within sixty days of March 19, 2003 were deemed to be outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.
- (2) In computing the percentage ownership of a person after the tender offer, we assumed that the holders of 5% or greater of our common stock, directors and executive officers tendered that number of shares that they have informed us they intend to tender in the tender offer as set forth in the column entitled "Number of Shares Expected to Be Tendered in the Tender Offer." We also assumed that all other issued and outstanding shares of common stock of QAD were tendered in the tender offer, and that 2,600,000 shares were purchased by us in the tender offer. To the extent fewer than all other issued and outstanding shares of common stock of QAD are tendered in the tender offer, the percentage ownership of persons listed in the table and who tender in the tender offer could decrease.
- (3) All shares held by the Lopkers are held jointly by Pamela and Karl Lopker, except that 690,855 shares are held in trust for the Lopkers' minor children and 12,000 shares are held in a charitable remainder trust. Pamela and Karl Lopker act as joint trustees of the charitable remainder trust. An additional 144,450 shares (to which the Lopkers disclaim beneficial ownership) are held by a charitable foundation of which the Lopkers are members of the Board of Directors and officers.
- (4) All shares reported for Mr. Lipkin are owned of record by Recovery Equity Investors II, L.P. Mr. Lipkin is a general partner of Recovery Equity Investors II, L.P.'s general partner.
- (5) Prior to the tendering his shares, Mr. Niedzielski will exercise stock options which will allow him to tender 6,250 shares of common stock in the tender offer.

The number of shares actually tendered by our major stockholders, directors and officers prior to the expiration date may be different from the number set forth in this Offer to Purchase.

**Transactions and Arrangements Regarding Securities of QAD.** Based on our records and on information provided to us by our directors, executive officers, affiliates and subsidiaries, neither we nor any of our affiliates or subsidiaries, nor, to the best of our knowledge, any of our or our

subsidiaries' directors or executive officers, nor any associates or subsidiaries of any of the foregoing, has effected any transactions involving the shares during the 60 days prior to the date hereof.

Except for outstanding options, warrants and other rights to purchase our common stock and except as otherwise described in this Offer to Purchase, neither we, nor, to the best of our knowledge, any of our affiliates, directors or executive officers is a party to any contract, arrangement, understanding or relationship with any other person relating, directly or indirectly to the tender offer or with respect to any of our securities, including, but not limited to, any contract, arrangement, understanding or relationship concerning the transfer or the voting of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or the giving or withholding of proxies, consents or authorizations.

**Stockholders' Agreement, Registration Rights Agreement and Warrant.** Pursuant to a Stock Purchase Agreement dated as of December 23, 1999, by and among QAD, Pamela M. Lopker, Karl F. Lopker, The Lopker Living Trust Dated March 23, 1993, and Recovery Equity

Investors II, L.P., Recovery Equity Investors II, L.P. purchased from the Lopker Living Trust and QAD 444,445 and 2,333,333 shares of QAD common stock, respectively (collectively, the "REI II Shares"), and a warrant exercisable for an aggregate of 225,000 shares (subject to adjustment as provided in the warrant) of QAD common stock at an exercise price of \$7.50 per share (subject to adjustment as provided in the warrant).

In connection with the Stock Purchase Agreement, the same parties entered into a Stockholders' Agreement also dated as of December 23, 1999. Pursuant to the Stockholders' Agreement, as long as Recovery Equity Investors II, L.P. holds at least 50% of the REI II Shares, Recovery Equity Investors II, L.P. may designate one person for election to the board of directors of QAD. Each person designated by Recovery Equity Investors II, L.P. for election to the board shall be included in the slate of nominees recommended by the board of QAD for election as directors at the appropriate annual meeting.

In connection with the Stock Purchase Agreement, we granted to Recovery Equity Investors II, L.P. certain "demand" and "piggyback" registration rights pursuant to a Registration Rights Agreement also dated December 23, 1999.

Including the 225,000 shares of common stock issuable upon exercise of its warrant, Recovery Equity Investors II, L.P. currently holds beneficial ownership of 3,002,778 shares of our common stock. Pursuant to the Stockholders' Agreement, Jeffrey A. Lipkin is the Recovery Equity Investors II, L.P. designee for election to the Board for so long as he is a general partner of Recovery Equity Investors II, L.P.'s general partner.

**Employment Agreements, Management Contracts and Change of Control Arrangements.** Each of the executive officers has an employee retention agreement that provides for acceleration of vesting in their options and the payment to them of an amount equal to either 24 or 12 months salary in the event of a termination of their employment with us following a change of control. This tender offer does not trigger the change of control provisions under such agreements. In addition, various executive officers have severance arrangements that provide payments to them of an amount equal to 6 months salary in the event of an involuntary termination of their employment with us.

Under the Stock Purchase Agreement referred to in the "Stockholders' Agreement" section above, QAD engaged Recovery Equity Investors II, L.P. to provide management advisory services to QAD for a term of five years, provided Recovery Equity Investors II, L.P. continues to own at least 1% of the REI II Shares (as defined in the "Stockholders' Agreement" section above). QAD has agreed to pay Recovery Equity Investors II, L.P. an annual fee of \$312,500 for such management advisory services; provided however, that if Recovery Equity Investors II, L.P. owns less than half of the REI II Shares, the fee will be reduced pro rata with the amount of REI II Shares that Recovery Equity

35

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Investors II, L.P. continues to own. Mr. Lipkin is a general partner of the general partnership of Recovery Equity Investors II, L.P.

**Certain Transactions.** As part of Kathleen M. Fisher's employment as our Executive Vice President and Chief Financial Officer, on April 11, 2000, she received a \$255,000 loan secured by real property. The loan was forgivable over four years in the amount of \$63,750 per year, contingent upon Ms. Fisher's continued employment with us. We reimbursed Ms. Fisher for the taxes due on the taxable compensation she recognized from forgiveness of the loan.

Subsequent to the first two forgiveness events, Ms. Fisher disposed of the real property securing the loan and the loan was terminated. The remainder of the loan was replaced by an Agreement to Escrow Funds dated July 29, 2002 (the "Agreement").

Pursuant to the Agreement, \$127,500 was deposited in an escrow account. Ms. Fisher receives funds from the escrow account, as taxable compensation, in the amount of \$63,750 per year, contingent upon her continued employment with us. She also receives the interest earned on the funds held in escrow. We reimburse Ms. Fisher for the taxes due on the compensation she recognizes under the Agreement.

The Agreement and the escrow will terminate no later than April 14, 2004, the date the Ms. Fisher is to receive the final \$63,750 payment plus interest from the escrow account, provided she continues to be employed by QAD through such date.

## **12. Legal Matters; Regulatory Approvals.**

We are not aware of any license or regulatory permit material to our business that might be adversely affected by our acquisition of shares as contemplated by the tender offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic, foreign or supranational, that would be required for the acquisition or ownership of shares by us as contemplated by the tender offer. Should any such approval or other action be required, we presently contemplate that we will seek that approval or other action. We are unable to predict whether we will be required to delay the acceptance for payment of or payment for shares tendered under the tender offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial cost or conditions or that the failure to obtain the approval or other action might not result in adverse consequences to our business and financial condition. Our obligations under the tender offer to accept for payment and pay for shares is subject to conditions. See Section 6.

## **13. Certain United States Federal Income Tax Consequences.**

The following summary describes certain United States federal income tax consequences relating to the tender offer. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations promulgated thereunder, administrative pronouncements and judicial decisions, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. This summary addresses only shares that are held as capital assets within the meaning of Section 1221 of the Code and does not address all of the tax consequences that may be relevant to stockholders in light of their particular circumstances or to certain types of stockholders subject to special treatment under the Code, including, without limitation, foreign stockholders, certain financial institutions, dealers in securities or commodities, traders in securities who elect to apply a mark-to-market method of accounting, insurance companies, tax-exempt organizations, certain expatriates, persons who hold shares as a position in a "straddle" or as a part of a "hedging," "conversion" or "constructive sale" transaction for United States federal income tax purposes, persons whose functional currency is not the United States dollar, persons who own, directly or by attribution, 10% or more of our common stock or persons who received their shares through the exercise of

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employee stock options or otherwise as compensation. In particular, except as otherwise specifically noted, this discussion applies only to "U.S. holders" (as defined below). This summary also does not address the state, local or foreign tax consequences of participating in the tender offer. For purposes of this discussion, a "U.S. holder" means:

- a citizen or resident of the United States;
- a corporation or other entity taxable as a corporation created or organized in the United States or under the laws of the United States or of any political subdivision thereof;
- an estate, the income of which is includible in gross income for United States federal income tax purposes regardless of its source; or
- a trust whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all of its substantial decisions.

If a partnership holds shares, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding shares should consult their tax advisors.

**Holders of shares who are not U.S. holders should consult their tax advisors regarding the United States federal income tax consequences and any applicable foreign tax consequences of the tender offer and should also see Section 3 for a discussion of the applicable United States withholding rules and the potential for obtaining a refund of all or a portion of any tax withheld.**

**Stockholders are urged to consult their tax advisor to determine the particular tax consequences to them of participating or not participating in the tender offer.**

**Characterization of the Purchase.** The purchase of shares by us under the tender offer will be a taxable transaction for U.S. federal income tax purposes. As a consequence of the purchase, a U.S. holder will, depending on the U.S. holder's particular circumstances, be treated either as having sold the U.S. holder's shares or as having received a distribution in respect of stock from us.

Under Section 302 of the Code, a U.S. holder whose shares are purchased by us under the tender offer will be treated as having sold its shares, and thus will recognize capital gain or loss, if the purchase:

- results in a "complete termination" of the U.S. holder's equity interest in QAD;
- results in a "substantially disproportionate" redemption with respect to the U.S. holder; or
- is "not essentially equivalent to a dividend" with respect to the U.S. holder.

Each of these tests, referred to as the "Section 302 tests," is explained in more detail below.

If a U.S. holder satisfies any of the Section 302 tests explained below, the U.S. holder will be treated as if it sold its shares to us and will recognize capital gain or loss equal to the difference between the amount of cash received under the tender offer and the U.S. holder's adjusted tax basis in the shares surrendered in exchange therefor. This gain or loss will be long-term capital gain or loss if the U.S. holder's holding period for the shares that were sold exceeds one year as of the date of purchase by us under the tender offer. Specified limitations apply to the deductibility of capital losses by U.S. holders. Gain or loss must be determined separately for each block of shares (shares acquired at the same cost in a single transaction) that is purchased by us from a U.S. holder under the tender offer. A U.S. holder may be able to designate, generally through its broker, which blocks of shares it wishes to tender under the tender offer if less than all of its shares are tendered under the tender offer, and the order in which different blocks will be purchased by us in the event of proration under the tender offer. U.S. holders should consult their tax advisors concerning the mechanics and desirability of that designation. Under the "wash sale" rules under Section 1091 of the Code, loss

recognized on our shares sold pursuant to the tender offer will be disallowed to the extent the U.S. holder acquires our shares within thirty days before or after the date the shares are purchased pursuant to the tender offer and in that event, the basis and holding period will be adjusted to reflect the disallowed loss.

If a U.S. holder does not satisfy any of the Section 302 tests explained below, the purchase of a U.S. holder's shares by us under the tender offer will not be treated as a sale or exchange under Section 302 of the Code with respect to the U.S. holder. Instead, the amount received by the U.S. holder with respect to the purchase of its shares by us under the tender offer will be treated as a dividend distribution to the U.S. holder with respect to its shares under Section 301 of the Code, taxable at ordinary income tax rates, to the extent it is paid from the current or accumulated earnings and profits (within the meaning of the Code) of QAD. To the extent the amount exceeds the U.S. holder's share of the current and accumulated earnings and profits of QAD, the excess first will be treated as a tax-free return of capital to the extent, generally, of the U.S. holder's adjusted tax basis in its shares and any remainder will be treated as capital gain (which may be long-term capital gain as described above). Under the current Treasury regulations, to the extent that a purchase of a U.S. holder's shares by us under the tender offer is treated as the receipt by the U.S. holder of a dividend, the U.S. holder's adjusted tax basis in the purchased shares will be added to any shares retained by the U.S. holder. Proposed Treasury regulations under Section 302 of the Code would amend these stock basis rules for transactions that take place after the date on which final rules are published. It is uncertain when or if such rules will be published as final Treasury regulations.

The determination of whether a corporation has current or accumulated earnings and profits is complex and the legal standards to be applied are subject to uncertainties and ambiguities. Additionally, whether a corporation has current earnings and profits can be determined only at the end of the taxable year. Accordingly, it is unclear whether all or any portion of the amount received by a U.S. holder with respect to the purchase of its shares by us under the tender offer that is not treated as a sale or exchange under Section 302 of the Code will constitute a dividend.

**Constructive Ownership of Stock and Other Issues.** In applying each of the Section 302 tests explained below, U.S. holders must take into account not only shares that they actually own but also shares they are treated as owning under the constructive ownership rules of Section 318 of the Code. Under the constructive ownership rules, a U.S. holder is treated as owning any shares that are owned (actually and in some cases constructively) by certain related individuals and entities as well as shares that the U.S. holder has the right to acquire by exercise of an option or by conversion or exchange of a security. Due to the factual nature of the Section 302 tests explained below, U.S. holders should consult their tax advisors to determine whether the purchase of their shares under the tender offer qualifies for sale treatment in their particular circumstances.

If a U.S. holder sells shares to persons other than us at or about the time the U.S. holder also sells shares to us pursuant to the tender offer, and the sales effected by the U.S. holder are part of an overall plan to reduce or terminate the U.S. holder's proportionate interest in us, then the sales to persons other than us may be integrated with the U.S. holder's sale of shares pursuant to the tender offer and, if integrated, should be taken into account in determining whether the U.S. holder satisfies any of the Section 302 tests explained below. U.S. holders should consult their tax advisors regarding the treatment of other sales of shares which may be integrated with the purchase of their shares by us pursuant to the tender offer.

We cannot predict whether or the extent to which the tender offer will be oversubscribed. If the tender offer is oversubscribed, proration of tenders under the tender offer will cause us to accept fewer shares than are tendered. Therefore, no assurance can be given that a U.S. holder will be able to determine in advance whether its disposition of shares pursuant to the tender offer will be treated as a sale or exchange or as a distribution in respect of stock from us.

38

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**Section 302 Tests.** One of the following tests must be satisfied in order for the purchase of shares by us under the tender offer to be treated as a sale or exchange for U.S. federal income tax purposes:

- **Complete Termination Test.** The purchase of a U.S. holder's shares by us under the tender offer will result in a "complete termination" of the U.S. holder's equity interest in us if all of the shares that are actually owned by the U.S. holder are sold under the tender offer and all of the shares that are constructively owned by the U.S. holder, if any, are sold under the tender offer or, with respect to shares owned by certain related individuals, the U.S. holder effectively waives, in accordance with Section 302(c) of the Code, attribution of shares which otherwise would be considered as constructively owned by the U.S. holder. U.S. holders wishing to satisfy the "complete termination" test through waiver of the constructive ownership rules should consult their tax advisors.
- **Substantially Disproportionate Test.** The purchase of a U.S. holder's shares by us under the tender offer will result in a "substantially disproportionate" redemption with respect to the U.S. holder if, among other things, the percentage of the then outstanding shares actually and constructively owned by the U.S. holder immediately after the purchase is less than 80% of the percentage of the shares actually and constructively owned by the U.S. holder immediately before the purchase (treating as outstanding all shares purchased under the tender offer).
- **Not Essentially Equivalent to a Dividend Test.** The purchase of a U.S. holder's shares by us under the tender offer will be treated as "not essentially equivalent to a dividend" if the reduction in the U.S. holder's proportionate interest in us as a result of the purchase constitutes a "meaningful reduction" given the U.S. holder's particular circumstances. Whether the receipt of cash by a stockholder who sells shares under the tender offer will be "not essentially equivalent to a dividend" is independent of whether or not we have current or accumulated earnings and profits and will depend upon the stockholder's particular facts and circumstances. The IRS has indicated in a published revenue ruling that even a small reduction in the percentage interest of a stockholder whose relative stock interest in a publicly held corporation is minimal (for example, an interest of less than 1%) and who exercises no control over corporate affairs should constitute a "meaningful reduction." U.S. holders should consult their tax advisors as to the application of this test in their particular circumstances.

**Corporate Stockholder Dividend Treatment.** If a corporate U.S. holder does not satisfy any of the Section 302 tests described above and we have current or accumulated earnings and profits, a corporate U.S. holder may, to the extent that any amounts received by it under the tender offer are treated as a dividend, be eligible for the dividends-received deduction under Section 243 of the Code. The dividends-received deduction is subject to certain limitations and may not be available if a corporate U.S. holder does not satisfy certain holding period requirements with respect to its shares and may be reduced if its shares are treated as "debt-financed portfolio stock" within the meaning of Section 246A of the Code. In addition, any amount received by a corporate U.S. holder pursuant to the tender offer that is treated as a dividend may constitute an "extraordinary dividend" under Section 1059 of the Code. If any such amount were treated as an "extraordinary dividend," a corporate U.S. holder would be required under Section 1059(a) of the Code to reduce its adjusted tax basis, but not below zero, in its shares by the non-taxed portion of the extraordinary dividend (i.e., the portion of the dividend for which a deduction is allowed) and, if such portion exceeds the corporate U.S. holder's adjusted tax basis in its shares, to treat the excess as gain from the sale of such shares in the year in which the dividend is received. These basis reduction and gain recognition rules would be applied by taking account only of the corporate U.S. holder's adjusted tax basis in the shares that were sold, without regard to other shares that the corporate U.S. holder may continue to own. Corporate U.S. holders should consult their own tax advisors as to the application of Sections 243, 246, 246A and 1059 of the Code to the tender offer, and to the tax consequences of dividend treatment in their particular circumstances.

39

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**Foreign Stockholders.** Generally, the depositary will withhold United States federal income tax at a rate of 30% from the gross proceeds paid under the tender offer to a foreign stockholder (as defined in Section 3) or his agent, unless the depositary determines that an exemption from, or a reduced rate of, withholding tax is available under a tax treaty or that an exemption from withholding otherwise applies. See Section 3 for a discussion of the applicable United States withholding rules and the potential for a foreign stockholder being subject to reduced withholding and for obtaining a refund of all or a portion of any tax withheld.

**Stockholders Who do Not Receive Cash Under the Tender Offer.** Stockholders whose shares are not purchased by us pursuant to the tender offer will not incur any tax liability as a result of the completion of the tender offer.

**Backup Withholding.** See Section 3 with respect to the application of United States federal backup withholding tax.

**The discussion set forth above is included for general information only. Stockholders are urged to consult their tax advisor to determine the particular tax consequences to them of the tender offer, including the applicability and effect of state, local and foreign tax laws.**

#### **14. Extension of the Tender Offer; Termination; Amendment.**

We expressly reserve the right, in our sole discretion, at any time and from time to time, and regardless of whether or not any of the events set forth in Section 6 shall have occurred or shall be deemed by us to have occurred, to extend the period of time during which the tender offer is open and thereby delay acceptance for payment of, and payment for, any shares by giving oral or written notice of such extension to the depository and making a public announcement of such extension. We also expressly reserve the right, in our sole reasonable judgment, to terminate the tender offer and not accept for payment or pay for any shares not theretofore accepted for payment or paid for or, subject to applicable law, to postpone payment for shares upon the occurrence of any of the conditions specified in Section 6 by giving oral or written notice of the termination or postponement to the depository and making a public announcement of such termination or postponement. Our reservation of the right to delay payment for shares which we have accepted for payment is limited by Rule 13e-4(f)(5) under the Securities Exchange Act of 1934, which requires that we must pay the consideration offered or return the shares tendered promptly after termination or withdrawal of a tender offer. Subject to compliance with applicable law, we further reserve the right, in our sole discretion, and regardless of whether any of the events set forth in Section 6 shall have occurred or shall be deemed by us to have occurred, to amend the tender offer in any respect, including, without limitation, by decreasing or increasing the price to be paid for tendered shares or by decreasing or increasing the number of shares being sought in the tender offer. Amendments to the tender offer may be made at any time and from time to time effected by public announcement, such announcement, in the case of an extension, to be issued no later than 9:00 a.m., New York City time, on the first business day after the last previously scheduled or announced expiration date. Any public announcement made pursuant to the tender offer will be disseminated promptly to stockholders in a manner reasonably designed to inform stockholders of the change. Without limiting the manner in which we may choose to make a public announcement, except as required by applicable law (including Rule 13d-4(e)(3) under the Securities Exchange Act of 1934), we will have no obligation to publish, advertise or otherwise communicate any such public announcement other than by making a press release through Business Wire or comparable service.

If we materially change the terms of the tender offer or the information concerning the tender offer, we will extend the tender offer to the extent required by Rules 13e-4(d)(2) and 13e-4(f)(1) under the Securities Exchange Act of 1934. These rules and certain related releases and interpretations of the Securities and Exchange Commission provide that the minimum period during which a tender offer

40

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must remain open following material changes in the terms of the tender offer or information concerning the tender offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances, including the relative materiality of the terms or information. If (1) we increase or decrease the price to be paid for tendered shares or increase or decrease the number of shares being sought in the tender offer and, in the case of an increase in the number of shares being sought, the increase exceeds 2% of the outstanding shares of our common stock and (2) the tender offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from, and including, the date that notice of an increase or decrease is first published, sent or given to security holders in the manner specified in this Section 14, then, in each case, the tender offer will be extended until the expiration of a period of ten business days.

#### **15. Fees and Expenses.**

We have retained SG Cowen Securities Corporation to act as our financial advisor, as well as the dealer manager, in connection with the tender offer. SG Cowen Securities Corporation will receive reasonable and customary compensation for its services. We also have agreed to reimburse SG Cowen Securities Corporation for reasonable out-of-pocket expenses incurred in connection with the tender offer, and to indemnify SG Cowen Securities Corporation against certain liabilities in connection with the tender offer, including liabilities under the federal securities laws. SG Cowen Securities Corporation has rendered various investment banking and other services to us in the past and may continue to render such services in the future, for which they have received, and may continue to receive, customary compensation from us. In the ordinary course of its trading and brokerage activities, SG Cowen Securities Corporation and its affiliates may hold long or short positions, for their own accounts or for those of their customers, in securities of QAD.

We have retained Morrow & Co., Inc. to act as information agent and American Stock Transfer & Trust Company to act as depository in connection with the tender offer. The information agent may contact holders of shares by mail, telephone, telegraph and in person and may request brokers, dealers, commercial banks, trust companies and other nominee stockholders to forward materials relating to the tender offer to beneficial owners. The information agent and the depository will each receive reasonable and customary compensation for their respective services, will be reimbursed by us for specified reasonable out-of-pocket expenses and will be indemnified against certain liabilities in connection with the tender offer, including certain liabilities under the federal securities laws.

No fees or commissions will be payable by us to brokers, dealers, commercial banks or trust companies (other than fees to the financial advisor, dealer manager and the information agent as described above) for soliciting tenders of shares under the tender offer. Stockholders holding shares through brokers or banks are urged to consult the brokers or banks to determine whether transaction costs are applicable if stockholders tender shares through such brokers or banks and not directly to the depository. We, however, upon request will reimburse brokers, dealers, commercial banks and trust companies for customary mailing and handling expenses incurred by them in forwarding the tender offer and related materials to the beneficial owners of shares held by them as a nominee or in a fiduciary capacity. No broker, dealer, commercial bank or trust company has been authorized to act as the agent of QAD, the dealer manager, the information agent or the depository for purposes of the tender offer. We will pay or cause to be paid all stock transfer taxes, if any, on its purchase of shares except as otherwise provided in this document and Instruction 7 in the Letter of Transmittal.

#### **16. Miscellaneous.**



We are not aware of any jurisdiction where the making of the tender offer is not in compliance with applicable law. If we become aware of any jurisdiction where the making of the tender offer or the acceptance of shares pursuant thereto is not in compliance with applicable law, we will make a good faith effort to comply with the applicable law. If, after such good faith effort, we cannot comply with

41

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the applicable law, the tender offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of shares in such jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the tender offer to be made by a licensed broker or dealer, the tender offer shall be deemed to be made on behalf of us by the dealer manager or one or more registered brokers or dealers licensed under the laws of that jurisdiction.

Pursuant to Rule 13e-4(c)(2) under the Securities Exchange Act of 1934, we have filed with the Securities and Exchange Commission an Issuer Tender Offer Statement on Schedule TO, which contains additional information with respect to the tender offer. The Schedule TO, including the exhibits and any amendments and supplements thereto, may be examined, and copies may be obtained, at the same places and in the same manner as is set forth in Section 9 with respect to information concerning us.

**We have not authorized any person to make any recommendation on our behalf as to whether you should tender or refrain from tendering your shares in the tender offer. You should rely only on the information contained in this Offer to Purchase and the related Letter of Transmittal and any document to which we have referred you. We have not authorized any person to give any information or to make any representation in connection with the tender offer other than those contained in this Offer to Purchase or in the related Letter of Transmittal. If anyone makes any recommendation or representation to you or gives you any information, you must not rely on that recommendation, representation or information as having been authorized by us or the dealer manager.**

**QAD INC.**

March 21, 2003

42

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The Letter of Transmittal and certificates for shares and any other required documents should be sent or delivered by each stockholder or such stockholder's broker, dealer, commercial bank, trust company or nominee to the depository at one of its addresses set forth below.

*The depository for the tender offer is:*

**American Stock Transfer & Trust Company**

*By mail:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
59 Maiden Lane—Plaza Level  
New York, NY 10038

*By overnight mail or hand delivery:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219

*By facsimile transmission  
(for eligible institutions only):*

(718) 234-5001  
For confirmation call:  
(800) 937-5449; or  
(212) 936-5100 (New York and  
outside of the United States)

Any questions or requests for assistance may be directed to the information agent or the dealer manager at their respective telephone numbers and addresses set forth below. Requests for additional copies of this Offer to Purchase, the related Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the information agent at the telephone number and address set forth below. Stockholders may also contact their broker, dealer, commercial bank, trust company or nominee for assistance concerning the tender offer. To confirm delivery of shares, stockholders are directed to contact the depository.

**The information agent for the tender offer is:**

**MORROW & CO., INC.**

445 Park Avenue, 5<sup>th</sup> Floor  
New York, NY 10022

E-mail: [QAD.info@morrowco.com](mailto:QAD.info@morrowco.com)

Call Collect (212) 754-8000  
Banks and Brokerage Firms, Please Call: (800) 654-2468

**Stockholders Please Call: (800) 607-0088**

**The dealer manager for the tender offer is:**

**SG Cowen**

1221 Avenue of the Americas  
New York, NY 10020  
(800) 746-3430 (Call Toll Free)

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QuickLinks

[IMPORTANT](#)

[TABLE OF CONTENTS](#)

[SUMMARY TERM SHEET](#)

[FORWARD-LOOKING STATEMENTS](#)

[THE TENDER OFFER](#)

[QAD INC. NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED CONSOLIDATED FINANCIAL INFORMATION](#)

**LETTER OF TRANSMITTAL  
TO TENDER SHARES OF COMMON STOCK,  
PAR VALUE \$.001 PER SHARE  
OF  
QAD INC.**

PURSUANT TO THE OFFER TO PURCHASE DATED MARCH 21, 2003

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**THE TENDER OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME,  
ON MONDAY, APRIL 21, 2003, UNLESS THE TENDER OFFER IS EXTENDED.**

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*The depositary for the tender offer is:*

**American Stock Transfer & Trust Company**

*By mail:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
59 Maiden Lane—Plaza Level  
New York, NY 10038

*By overnight delivery or hand delivery:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219

*By facsimile transmission  
(for eligible institutions only):*

(718) 234-5001

For confirmation call:  
(800) 937-5449; or  
(212) 936-5100 (for New York and outside the  
United States)

*The information agent for the tender offer is:*

**MORROW & CO., INC.**

All questions regarding the tender offer should be directed to Morrow & Co., Inc., the information agent, or SG Cowen Securities Corporation, the dealer manager, at their respective addresses and telephone numbers set forth on the back cover page of the Offer to Purchase.

**This Letter of Transmittal, including the accompanying instructions, and the Offer to Purchase should be read carefully before you complete this Letter of Transmittal.**

**Delivery of this Letter of Transmittal to an address other than one of those shown above for the depositary does not constitute a valid delivery. Deliveries to QAD Inc., the dealer manager of the tender offer or the information agent of the tender offer will not be forwarded to the depositary and therefore will not constitute valid delivery to the depositary. Deliveries to the book-entry transfer facility will not constitute valid delivery to the depositary.**

**List below each certificate number, the number of shares represented by each certificate and the number of such shares tendered. If the space provided below is inadequate, list such information on a separately executed and signed schedule and affix the schedule to this Letter of Transmittal. The names and addresses of the holders should be printed, if not already printed below, exactly as they appear on the certificates representing the shares tendered hereby. The shares that the undersigned wishes to tender should be indicated in the appropriate boxes.**

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DESCRIPTION OF SHARES TENDERED (SEE INSTRUCTIONS 3 AND 4)

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Name(s) and Address(es) of Registered Holder(s)  
(Please fill in exactly as appears on certificate(s))

Certificate(s) Tendered  
(Attach additional signed schedule if necessary)

Certificate  
Number(s)\*

Number of Shares  
Represented By  
Certificate(s)\*

Number of Shares  
Tendered\*\*

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Total Shares  
Tendered\*

LIST IF NECESSARY):\*\*\* SEE INSTRUCTION 9.

1st: ; 2nd: ; 3rd: ; 4th: ; 5th: ; 6th:

\* Need not be completed if shares are delivered by book-entry transfer.

\*\* If you desire to tender fewer than all shares evidenced by any certificates listed above, please indicate in this column the number of shares you wish to tender. Otherwise, all shares evidenced by such certificates will be deemed to have been tendered. See Instruction 4.

\*\*\* If you do not designate an order, in the event less than all shares tendered are purchased due to proration, shares will be selected for purchase by the depositary. See Instruction 9.

☐ Check here if any certificates representing shares tendered hereby have been lost, stolen, destroyed or mutilated. You must complete an affidavit of loss and return it with your Letter of Transmittal. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. Please call American Stock Transfer & Trust Company, at (800) 937-5449, to obtain an affidavit of loss and for further instructions and as to the determination of the requirement for posting of a bond. See Instruction 15.

This Letter of Transmittal is to be used only if (1) certificates for shares are to be forwarded with it, or such certificates will be delivered under a Notice of Guaranteed Delivery previously sent to the depositary or (2) a tender of shares is to be made by book-entry transfer to the account maintained by the depositary at The Depository Trust Company, or any other "qualified" registered securities depositary, referred to as the "book-entry transfer facility," under Section 3 of the Offer to Purchase.

Stockholders who desire to tender shares under the tender offer and who cannot deliver the certificates for their shares or who are unable to comply with the procedures for book-entry transfer before the "expiration date" (as defined in Section 1 of the Offer to Purchase), and who cannot deliver all other documents required by this Letter of Transmittal to the depositary before the expiration date, may tender their shares according to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase. See Instruction 2. Delivery of documents to the book-entry transfer facility does not constitute delivery to the depositary.

☐ **CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY WITH THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:**

Name of Tendering Institution: \_\_\_\_\_

Account Number: \_\_\_\_\_

Transaction Code Number: \_\_\_\_\_

☐ **CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED UNDER A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:**

Name(s) of Registered Holder(s): \_\_\_\_\_

Date of Execution of Notice of Guaranteed Delivery: \_\_\_\_\_

Name of Institution which Guaranteed Delivery: \_\_\_\_\_

Account Number: \_\_\_\_\_

**ODD LOTS  
(SEE INSTRUCTION 8)**

To be completed ONLY if shares are being tendered by or on behalf of a person owning beneficially or of record an aggregate of fewer than 100 shares.

On the date hereof, the undersigned either (check one box):

☐ owned beneficially or of record an aggregate of fewer than 100 shares, and is tendering all of such shares, or

☐ is a broker, dealer, commercial bank, trust company or other nominee which:

(a) is tendering, for the beneficial owners thereof, shares with respect to which it is the record owner, and

(b) believes, based upon representations made to it by such beneficial owners, that each such person was the beneficial owner of an aggregate of fewer than 100 shares and is tendering all of such shares.

In addition, the undersigned is tendering shares either (check one box):

☐ at the purchase price, as the same shall be determined by QAD in accordance with the terms of the tender offer (persons checking this box need not indicate the price per share below), or

- ☐ at the price per share indicated below under "Price (in dollars) per Share at which Shares are being Tendered" in this Letter of Transmittal.
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To American Stock Transfer & Trust Company:

The undersigned hereby tenders to QAD Inc., a Delaware corporation ("QAD"), the above-described shares of QAD common stock, par value \$.001 per share, at the price per share indicated in this Letter of Transmittal, net to the seller in cash, without interest, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated March 21, 2003, of QAD, receipt of which is hereby acknowledged, and in this Letter of Transmittal which, as amended and supplemented from time to time, together constitute the tender offer.

Subject to and effective upon acceptance for payment of the shares tendered hereby in accordance with the terms of the tender offer, including, if the tender offer is extended or amended, the terms or conditions of any such extension or amendment, the undersigned hereby sells, assigns and transfers to or upon the order of QAD all right, title and interest in and to all shares tendered hereby and orders the registration of such shares tendered by book-entry transfer that are purchased under the tender offer to or upon the order of QAD and hereby irrevocably constitutes and appoints the depository as attorney-in-fact of the undersigned with respect to such shares, with the full knowledge that the depository also acts as the agent of QAD, with full power of substitution, such power of attorney being an irrevocable power coupled with an interest, to:

- (a) deliver certificates for shares, or transfer ownership of such shares on the account books maintained by the book-entry transfer facility, together in either such case with all accompanying evidences of transfer and authenticity, to or upon the order of QAD, upon receipt by the depository, as the undersigned's agent, of the purchase price with respect to such shares;
- (b) present certificates for such shares for cancellation and transfer on the books of QAD; and
- (c) receive all benefits and otherwise exercise all rights of beneficial ownership of such shares, subject to the next paragraph, all in accordance with the terms of the tender offer.

The undersigned hereby covenants, represents and warrants to QAD that:

- (a) the undersigned understands that tendering of shares under any one of the procedures described in Section 3 of the Offer to Purchase and in the instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the tender offer, including the undersigned's representation and warranty that (i) the undersigned has a net long position in shares or equivalent securities at least equal to the shares tendered within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and (ii) such tender of shares complies with Rule 14e-4 under the Exchange Act;
- (b) when and to the extent QAD accepts the shares for purchase, QAD will acquire good, marketable and unencumbered title to them, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim; and
- (c) on request, the undersigned will execute and deliver any additional documents the depository or QAD deems necessary or desirable to complete the assignment, transfer and purchase of the shares tendered hereby.

The names and addresses of the registered holders should be printed, if they are not already printed above, exactly as they appear on the certificates representing the shares tendered hereby. The certificate numbers, the number of shares represented by such certificates, and the number of shares that the undersigned wishes to tender, should be set forth in the appropriate boxes above.

The undersigned understands that QAD will, upon the terms and subject to the conditions of the tender offer, determine a single per share price, not in excess of \$5.25 per share nor less than \$4.75 per share, that it will pay for shares properly tendered and not withdrawn under the tender offer, taking into account the number of shares so tendered and the prices specified by tendering stockholders. The undersigned understands that QAD will select the purchase price that will allow it to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, at prices not in excess of \$5.25 per share nor less than \$4.75 per share, under the tender offer. The undersigned understands that

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all shares properly tendered at prices at or below the purchase price and not properly withdrawn will be purchased at the purchase price, net to the seller in cash, without interest, upon the terms and subject to the conditions of the tender offer, including its odd lot preferences and proration provisions, and that QAD will return all other shares, including shares tendered and not properly withdrawn at prices greater than the purchase price and shares not purchased because of proration as promptly as practicable following the expiration date.

The undersigned recognizes that under certain circumstances set forth in the Offer to Purchase, QAD may terminate or amend the tender offer or may postpone the acceptance for payment of, or the payment for, shares tendered or may accept for payment fewer than all of the shares tendered hereby. The undersigned understands that certificate(s) for any shares not tendered or not purchased will be returned to the undersigned at the address indicated above. The undersigned recognizes that QAD has no obligation, under the Special Payment Instructions, to transfer any certificate for shares from the name of its registered holder, or to order the registration or transfer of shares tendered by book-entry transfer, if QAD purchases none of the shares represented by such certificate or tendered by such book-entry transfer.

The undersigned understands that acceptance of shares by QAD for payment will constitute a binding agreement between the undersigned and QAD upon the terms and subject to the conditions of the tender offer.

The check for the aggregate net purchase price for such of the tendered shares as are purchased by QAD will be issued to the order of the undersigned and mailed to the address indicated above unless otherwise indicated under either of the "Special Payment Instructions" or the "Special Delivery Instructions" boxes below.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned and any obligations or duties of the undersigned under this Letter of Transmittal shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offer to Purchase, this tender is irrevocable.

**SHARES TENDERED AT PRICE DETERMINED BY STOCKHOLDER (SEE INSTRUCTION 5)**

By checking ONE of the following boxes below INSTEAD OF THE BOX UNDER "Shares Tendered at Price Determined under the Tender Offer," the undersigned hereby tenders shares at the the price checked. This action could result in none of the shares being purchased if the purchase price determined by QAD for the shares is less than the price checked below. A stockholder who desires to tender shares at more than one price must complete a separate Letter of Transmittal for each price at which shares are tendered. The same shares cannot be tendered, unless previously properly withdrawn as provided in Section 4 of the Offer to Purchase, at more than one price.

**PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED**

<input type="checkbox"/> \$ 4.75	<input type="checkbox"/> \$ 4.95	<input type="checkbox"/> \$ 5.15
<input type="checkbox"/> \$ 4.80	<input type="checkbox"/> \$ 5.00	<input type="checkbox"/> \$ 5.20
<input type="checkbox"/> \$ 4.85	<input type="checkbox"/> \$ 5.05	<input type="checkbox"/> \$ 5.25
<input type="checkbox"/> \$ 4.90	<input type="checkbox"/> \$ 5.10	

**CHECK ONLY ONE BOX ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, THERE IS NO VALID TENDER OF SHARES.**

**SHARES TENDERED AT PRICE DETERMINED UNDER THE TENDER OFFER  
(SEE INSTRUCTION 5)**

☐ The undersigned wants to maximize the chance of having QAD purchase all of the shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking THIS BOX INSTEAD OF ONE OF THE PRICE BOXES ABOVE, the undersigned hereby tenders shares and is willing to accept the purchase price determined by QAD in accordance with the terms of the tender offer. This action could result in receiving a price per share as low as \$4.75.

**SPECIAL PAYMENT INSTRUCTIONS  
(See Instructions 1, 4, 6, 7 and 10)**

To be completed ONLY if certificates for shares not tendered or not purchased and/or any check for the purchase price of shares purchased are to be issued in the name of someone other than the undersigned or if shares tendered hereby and delivered by book-entry transfer which are not purchased are to be returned by credit to an account at the book-entry transfer facility other than that designated above.

Issue: ☐ Check ☐ Certificate(s) to:

Name:

(Please print)

Address:

(Including zip code)

(Tax Identification or Social Security Number)  
(See Substitute Form W-9 included herewith)

**SPECIAL DELIVERY INSTRUCTIONS  
(See Instructions 1, 4, 6 and 10)**

To be completed ONLY if certificates for shares not tendered or not purchased, and/or any check for the purchase price of shares purchased are to be sent to someone other than the undersigned or to the undersigned at an address other than that shown above.

Deliver: ☐ Check ☐ Certificate(s) to:

Name:

(Please print)

Address:

(Including zip code)

(Tax Identification or Social Security Number)  
(See Substitute Form W-9 included herewith)

☐ Credit shares delivered by book-entry transfer and not purchased to the account set forth below:

Account No.:

**SHAREHOLDER(S) SIGN HERE**  
**(See Instructions 1 and 6)**

**(Please Complete Substitute Form W-9 Included Herewith)**

Must be signed by the registered holder(s) exactly as name(s) appear(s) on certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificate(s) and documents transmitted with the Letter of Transmittal. If signature is by attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or another acting in a fiduciary or representative capacity, please set forth the full title. See Instruction 6.

\_\_\_\_\_  
\_\_\_\_\_  
Name(s): \_\_\_\_\_ (Signature(s))

\_\_\_\_\_  
Capacity (full title): \_\_\_\_\_ (Please print)

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

Country code, area code and telephone number: \_\_\_\_\_

Dated: \_\_\_\_\_, 2003  
Tax Identification or Social Security Number: \_\_\_\_\_

**GUARANTEE OF SIGNATURE(S)**  
**(SEE INSTRUCTIONS 1 AND 6)**

Authorized signature: \_\_\_\_\_

Name(s): \_\_\_\_\_  
\_\_\_\_\_  
(Please Print)

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

Name of firm: \_\_\_\_\_

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

(Including zip code)

Country code, area code and telephone number: \_\_\_\_\_

Dated: \_\_\_\_\_, 2003  
Tax Identification or Social Security Number: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
**INSTRUCTIONS TO LETTER OF TRANSMITTAL**  
**FORMING PART OF THE TERMS OF THE TENDER OFFER**  
**OF**  
**QAD INC.**

1. **Guarantee of Signatures.** No signature guarantee is required if either:

(a) this Letter of Transmittal is signed by the registered holder of the shares exactly as the name of the registered holder appears on the certificate, which term, for purposes of this document, shall include any participant in a book-entry transfer facility whose name appears on a security position listing as the owner of shares, tendered with this Letter of Transmittal, and payment and delivery are to be made directly to such registered holder unless such registered holder has completed either the box entitled "Special Payment Instructions" or "Special Delivery Instructions" above; or

(b) such shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "eligible guarantor institution," as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, each such entity, referred to as an "eligible guarantor institution."

In all other cases, signatures must be guaranteed by an eligible guarantor institution. See Instruction 6.

2. **Delivery of Letter of Transmittal and Certificates; Guaranteed Delivery Procedures.** This Letter of Transmittal is to be used only if certificates are delivered with it to the depository, or such certificates will be delivered under a Notice of Guaranteed Delivery previously sent to the depository, or if tenders are to be made under the procedure for tender by book-entry transfer set forth in Section 3 of the Offer to Purchase. Certificates for all physically tendered shares, or confirmation of a book-entry transfer into the depository's account at the book-entry transfer facility of shares tendered electronically, together in each case with a properly completed and duly executed Letter of Transmittal or manually signed facsimile of it, or an agent's message (as defined below), and any other documents required by this Letter of Transmittal, should be mailed or delivered to the depository at the appropriate address set forth herein and must be delivered to the depository before the expiration date.

The term "agent's message" means a message transmitted by the book-entry transfer facility to, and received by, the depository, which states that the book-entry transfer facility has received an express acknowledgment from the participant in such book-entry transfer facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal, and that QAD may enforce such agreement against such participant.

Stockholders whose certificates are not immediately available or who cannot deliver certificates for their shares and all other required documents to the depository before the expiration date, or whose shares cannot be delivered before the expiration date under the procedures for book-entry transfer, may tender their shares by or through any eligible guarantor institution by properly completing and duly executing and delivering a Notice of Guaranteed Delivery, or facsimile of it, and by otherwise complying with the guaranteed delivery procedure set forth in Section 3 of the Offer to Purchase. Under such procedure, the certificates for all physically tendered shares or book-entry confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal, or manually signed facsimile of it, or an agent's message, and all other documents required by this Letter of Transmittal, must be received by the depository within three Nasdaq National Market trading days after receipt by the depository of such Notice of Guaranteed Delivery, all as provided in Section 3 of the Offer to Purchase.

The Notice of Guaranteed Delivery may be delivered by hand, facsimile transmission or mail to the depository and must include, if necessary, a guarantee by an eligible guarantor institution in the

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form set forth in such notice. For shares to be tendered validly under the guaranteed delivery procedure, the depository must receive the Notice of Guaranteed Delivery before the expiration date.

**THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING CERTIFICATES FOR SHARES, IS AT THE OPTION AND RISK OF THE TENDERING STOCKHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.**

QAD will not accept any alternative or contingent or conditional tenders, nor will it purchase any fractional shares. All tendering stockholders, by execution of this Letter of Transmittal, or a facsimile of it, waive any right to receive any notice of the acceptance of their tender.

3. **Inadequate Space.** If the space provided in the box captioned "Description of Shares Tendered" is inadequate, the certificate numbers, the number of shares represented by each certificate and the number of shares tendered should be listed on a separate signed schedule and attached to this Letter of Transmittal.

4. **Partial Tenders and Unpurchased Shares.** (Not applicable to stockholders who tender by book-entry transfer.) If fewer than all of the shares evidenced by any certificate are to be tendered, fill in the number of shares that are to be tendered in the column entitled "Number of Shares Tendered." In such case, if any tendered shares are purchased, a new certificate for the remainder of the shares evidenced by the old certificates will be issued and sent to the registered holder(s) promptly after the expiration date. Unless otherwise indicated, all shares represented by the certificates listed and delivered to the depository will be deemed to have been tendered.

5. **Indication of Price at Which Shares are Being Tendered.** For shares to be properly tendered, the stockholder MUST check the box indicating the price per share at which such stockholder is tendering shares under "Price (in Dollars) per Share at which Shares are being Tendered" in this Letter of Transmittal; provided, however, that (1) an "odd lot holder" (as defined in Instruction 9) may check the box above in the section entitled "Odd Lots" indicating that such holder is tendering all of such holder's shares at the purchase price determined by QAD under the tender offer or (2) a stockholder may check the box above in the section captioned "Shares Tendered at Price Determined under the Tender Offer" if the stockholder wants to maximize the chance of having QAD purchase all of the shares that it is tendering (subject to the possibility of proration); this action could result in the stockholder receiving a price per share as low as \$4.75. ONLY ONE BOX MAY BE CHECKED. IF MORE THAN ONE BOX IS CHECKED OR IF NO BOX IS CHECKED, THERE IS NO PROPER TENDER OF SHARES. A stockholder wishing to tender portions of such stockholder's share holdings at different prices must complete a separate Letter of Transmittal for each price at which such stockholder wishes to tender each such portion of such stockholder's shares. The same shares cannot be tendered, unless previously properly withdrawn as provided in Section 4 of the Offer to Purchase, at more than one price.

6. **Signatures on Letter of Transmittal, Stock Powers and Endorsements.**

(a) If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, the signature(s) must correspond



exactly with the name(s) as written on the face of the certificate(s) without any change whatsoever.

(b) If the shares are registered in the names of two or more joint holders, each such holder must sign this Letter of Transmittal.

(c) If any tendered shares are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal, or photocopies of it, as there are different registrations of certificates.

(d) When this Letter of Transmittal is signed by the registered holder(s) of the shares listed and transmitted hereby, no endorsements of certificate(s) representing such shares or separate stock powers are required unless payment is to be made or the certificates for shares not tendered

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or not purchased are to be issued to a person other than the registered holder(s). SIGNATURE(S) ON SUCH CERTIFICATE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION. If this Letter of Transmittal is signed by a person other than the registered holder(s) of the certificate(s) listed, or if payment is to be made to a person other than the registered holder(s), the certificate(s) must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the certificate(s), and the signature(s) on such certificates or stock power(s) must be guaranteed by an eligible guarantor institution. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and must submit proper evidence to the depository that is satisfactory to QAD of their authority to so act.

**7. Stock Transfer Taxes.** Except as provided in this Instruction 7, no stock transfer tax stamps or funds to cover such stamps need to accompany this Letter of Transmittal. QAD will pay or cause to be paid any stock transfer taxes payable on the transfer to it of shares purchased under the tender offer. If, however:

(a) payment of the purchase price is to be made to any person other than the registered holder(s);

(b) tendered certificates are registered in the name of any person(s) other than the person(s) signing this Letter of Transmittal; or

(c) shares not tendered or not accepted for purchase are to be registered in the name(s) of any person(s) other than the registered holder(s);

then the depository will deduct from the purchase price the amount of any stock transfer taxes (whether imposed on the registered holder(s), such other person(s) or otherwise) payable on account thereof, unless satisfactory evidence of the payment of such taxes or an exemption from them is submitted.

**8. Odd Lots.** As described in Section 1 of the Offer to Purchase, if QAD is to purchase fewer than all shares tendered before the expiration date and not properly withdrawn, the shares purchased first will consist of all shares tendered by any stockholder who owned beneficially or of record an aggregate of fewer than 100 shares, and who tenders all of such holder's shares at or below the purchase price. This preference will not be available unless all of such holder's shares are tendered at or below the purchase price. This preference will not be available unless the box captioned "Odd Lots" is completed.

**9. Order of Purchase in Event of Proration.** Stockholders may designate the order in which their shares are to be purchased in the event of proration. The order of purchase may have an effect on the United States federal income tax classification and the amount of any gain or loss on the shares purchased. See Section 13 of the Offer to Purchase.

**10. Special Payment and Delivery Instructions.** If check(s) are to be issued in the name of a person other than the signer of the Letter of Transmittal or if such check(s) are to be sent to someone other than the person signing the Letter of Transmittal or to the signer at a different address, the boxes captioned "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed as applicable and signatures must be guaranteed as described in Instructions 1 and 6.

**11. Irregularities.** All questions as to the number of shares to be accepted, the price to be paid therefor and the validity, form, eligibility, including time of receipt, and acceptance for payment of any tender of shares will be determined by QAD in its sole discretion, which determinations shall be final and binding on all parties. QAD reserves the absolute right to reject any or all tenders of shares it determines not to be in proper form or the acceptance of which or payment for which may, in the opinion of QAD, be unlawful. QAD also reserves the absolute right to waive with respect to all

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stockholders any of the conditions of the tender offer and to waive any defect or irregularity in the tender of any particular shares, and QAD's interpretation of the terms of the tender offer, including these instructions, will be final and binding on all parties. No tender of shares will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as QAD shall determine. None of QAD, the dealer manager (as defined in the Offer to Purchase), the depository, the information agent (as defined in the Offer to Purchase) or any other person is or will be obligated to give notice of any defects or irregularities in tenders and none of them will incur any liability for failure to give any such notice.

**12. Questions and Requests for Assistance and Additional Copies.** Any questions or requests for assistance or for additional copies of the Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the information agent at the telephone number and address set forth below. You may also contact the dealer manager or your broker, dealer, commercial bank or trust company for assistance concerning the tender offer. To confirm delivery of your shares, you are directed to contact the depository at the number set forth on the front page of this Letter of Transmittal.

**13. Tax Identification Number and Backup Withholding.** U.S. federal income tax law generally requires that a stockholder whose

tendered shares are accepted for purchase, or such stockholder's assignee, in either case, referred to as the "payee," provide the depositary with such payee's correct taxpayer identification number, which, in the case of a payee who is an individual, is such payee's social security number. If the depositary is not provided with the correct taxpayer identification number or an adequate basis for an exemption, such payee may be subject to penalties imposed by the Internal Revenue Service and backup withholding in an amount equal to 30% of the gross proceeds received pursuant to the tender offer. If withholding results in an overpayment of taxes, a refund may be obtained. To prevent backup withholding, each payee must provide the depositary with a correct taxpayer identification number by completing the Substitute Form W-9 included herewith, and certify, under penalties of perjury, that such taxpayer identification number is correct (or that such payee is awaiting a taxpayer identification number), that such stockholder is not subject to backup withholding of federal income tax, and that such stockholder is a U.S. person. If the payee does not have a taxpayer identification number, such payee should (i) consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for instructions on applying for a taxpayer identification number, (ii) write "Applied For" in the space provided in Part 1 of the Substitute Form W-9 and (iii) sign and date the Substitute Form W-9 and the Certificate of Awaiting Taxpayer Identification Number. If the payee does not provide such payee's taxpayer identification number to the depositary, backup withholding will apply and will reduce the net amount paid to the selling stockholder. Note that writing "Applied For" on the Substitute Form W-9 means that the payee has already applied for a taxpayer identification number or that such payee intends to apply for one in the near future. If shares are held in more than one name or are not in the name of the actual owner, consult the Substitute Form W-9 Guidelines for information on which taxpayer identification number to report. Exempt payees, including, among others, all corporations and certain foreign individuals, are not subject to backup withholding and reporting requirements. To prevent possible erroneous backup withholding, an exempt payee should check the exempt payee box in Part 2 of Substitute Form W-9, and should sign and date the form. See the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions. In order for a nonresident alien or foreign entity to qualify as an exempt payee, such person must submit a completed IRS Form W-8BEN or a Substitute Form W-8 (or similar form), signed under penalties of perjury attesting to such exempt status. Such form may be obtained from the depositary.

**14. Withholding on Foreign Holder.** The following discussion applies to any "foreign stockholder," that is, a stockholder that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership, a foreign estate or a foreign trust. A foreign stockholder who has provided a completed IRS Form W-8BEN or a Substitute Form W-9 (or similar form) to the depositary will not be subject to backup withholding. However, foreign stockholders

generally are subject to withholding under Internal Revenue Code sections 1441 or 1442 at a rate of 30% of the gross payments received by such foreign stockholders which are subject to dividend treatment. If a stockholder's address is outside the United States, and if the depositary has not received a Substitute Form W-9, the depositary will assume that the stockholder is a foreign stockholder. The general 30% withholding rate may be reduced under a tax treaty, if appropriate certification (Form W-8BEN) is furnished to the depositary. A foreign stockholder may be eligible to obtain a refund of all or a portion of any tax withheld if such stockholder meets those tests described in Section 13 of the Offer to Purchase that would characterize the exchange as a sale (as opposed to a dividend) or is otherwise able to establish that no tax or a reduced amount of tax is due. Foreign stockholders are urged to consult their tax advisors regarding the application of U.S. federal income tax withholding and the refund procedure.

**15. Lost, Stolen, Destroyed or Mutilated Certificates.** If any certificate representing shares has been lost, stolen, destroyed or mutilated, the stockholder should notify American Stock Transfer & Trust Company, the transfer agent for the shares, of that fact by calling American Stock Transfer & Trust Company at (800) 937-5449 and asking for instructions on obtaining a replacement certificate(s). American Stock Transfer & Trust Company will require you to complete an affidavit of loss and return it to American Stock Transfer & Trust Company. Such stockholder will then be instructed by American Stock Transfer & Trust Company as to the steps that must be taken in order to replace the certificate. A bond may be required to be posted by the stockholder to secure against the risk that the certificate may be subsequently recirculated. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, stolen, destroyed or mutilated certificates have been followed.

**IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED PHOTOCOPY OF IT (TOGETHER WITH CERTIFICATE(S) FOR SHARES OR CONFIRMATION OF BOOK-ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR, IF APPLICABLE, THE NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE DEPOSITARY BEFORE THE EXPIRATION DATE.**

#### TAXPAYER IDENTIFICATION NUMBER

**PAYER'S NAME: AMERICAN STOCK TRANSFER & TRUST COMPANY**

**SUBSTITUTE  
FORM W-9**

Name

Address

**Department of the Treasury,  
Internal  
Revenue Service**

(Number and street)

(City)

(State)

(Zip code)

**Payer's Request for  
Taxpayer Identification  
Number and Certification**

**PART 1(A)—PLEASE PROVIDE YOUR TAXPAYER IDENTIFICATION NUMBER IN  
THE BOX AT THE RIGHT AND CERTIFY BY SIGNING AND DATING BELOW**

TIN:

Social Security Number  
or Employer  
Identification Number

**PART 1(B)—PLEASE CHECK THE BOX AT THE RIGHT IF YOU HAVE APPLIED FOR AND ARE AWAITING RECEIPT OF YOUR TAXPAYER IDENTIFICATION NUMBER OR INTEND TO APPLY FOR A TAXPAYER IDENTIFICATION NUMBER IN THE NEAR FUTURE** ☐

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**PART 2**—FOR PAYEES EXEMPT FROM BACKUP WITHHOLDING PLEASE WRITE "EXEMPT" HERE  
(SEE INSTRUCTIONS)

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**PART 3**—CERTIFICATION UNDER PENALTIES OF PERJURY, I CERTIFY THAT (1) The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me), (2) I am not subject to backup withholding because (A) I am exempt from backup withholding; or (B) I have not been notified by the Internal Revenue Service that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (C) the Internal Revenue Service has notified me that I am no longer subject to backup withholding, and (3) I am a U.S. person (including a U.S. nonresident alien).

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SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_, 2003

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You must cross out Item (2) of Part 3 above if you have been notified by the Internal Revenue Service that you are currently subject to backup withholding because of underreporting interest or dividends on your tax return. However, if after being notified by the Internal Revenue Service that you were subject to backup withholding you received another notification from the Internal Revenue Service that you are no longer subject to backup withholding, do not cross out Item (2) of Part 3 above. (Also see certification under instructions in the enclosed guidelines.)

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**YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 1(B) OF THE SUBSTITUTE FORM W-9 INDICATING YOU HAVE APPLIED FOR, AND ARE AWAITING RECEIPT OF, YOUR TAXPAYER IDENTIFICATION NUMBER.**

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**CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER**

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and that I mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service center or Social Security Administration office (or I intend to mail or deliver an application in the near future). I understand that if I do not provide a taxpayer identification number to the payer, 30% of all payments made to me under the tender offer shall be retained until I provide a taxpayer identification number to the payer and that, if I do not provide my taxpayer identification number within sixty days, such retained amounts shall be remitted to the Internal Revenue Service as backup withholding and 30% of all reportable payments made to me thereafter will be withheld and remitted to the Internal Revenue Service until I provide a taxpayer identification number.

Signature \_\_\_\_\_

Date \_\_\_\_\_

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**NOTE: FAILURE TO COMPLETE AND RETURN THIS FORM MAY RESULT IN BACKUP WITHHOLDING OF 30% OF ANY CASH PAYMENTS. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL DETAILS.**

Facsimile copies of the Letter of Transmittal will be accepted from eligible guarantor institutions. The Letter of Transmittal and certificates for shares and any other required documents should be sent or delivered by each tendering shareholder or its broker, dealer, commercial bank, trust company or other nominee to the depository at one of its addresses set forth above.

Any questions or requests for assistance or for additional copies of the Offer to Purchase, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the information agent at the telephone number and address set forth below. You may also contact the dealer manager or your broker, dealer, commercial bank or trust company for assistance concerning the tender offer. To confirm delivery of your shares, you are directed to contact the depository.

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Any questions and requests for assistance or additional copies of the Offer to Purchase, the Letter of Transmittal and related materials may be directed to the information agent at its address and telephone number set forth below. Stockholders may also contact their broker, dealer, commercial bank or trust company for assistance concerning the tender offer.

**The information agent for the tender offer is:**

**MORROW & CO., INC.**

445 Park Avenue, 5th Floor  
New York, NY 10022

E-mail: [qad.info@morrowco.com](mailto:qad.info@morrowco.com)  
Call Collect (212) 754-8000

Banks and Brokerage Firms, Please Call: (800) 654-2468

**Stockholders Please Call: (800) 607-0088**

*The dealer manager for the tender offer is:*

**SG Cowen**

1221 Avenue of the Americas  
New York, NY 10020

(800) 746-3430 (Call Toll Free)

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QuickLinks

[ODD LOTS \(SEE INSTRUCTION 8\)](#)

[SHARES TENDERED AT PRICE DETERMINED BY STOCKHOLDER \(SEE INSTRUCTION 5\)](#)

[PRICE \(IN DOLLARS\) PER SHARE AT WHICH SHARES ARE BEING TENDERED](#)

[SHARES TENDERED AT PRICE DETERMINED UNDER THE TENDER OFFER \(SEE INSTRUCTION 5\)](#)

[SHAREHOLDER\(S\) SIGN HERE \(See Instructions 1 and 6\) \(Please Complete Substitute Form W-9 Included Herewith\)](#)

[INSTRUCTIONS TO LETTER OF TRANSMITTAL FORMING PART OF THE TERMS OF THE TENDER OFFER OF QAD INC.](#)

**NOTICE OF GUARANTEED DELIVERY FOR  
QAD INC.  
OFFER TO PURCHASE FOR CASH UP TO 2,600,000 SHARES OF ITS  
COMMON STOCK, PAR VALUE \$.001 PER SHARE,  
AT A PURCHASE PRICE NOT IN EXCESS OF \$5.25 PER SHARE  
NOR LESS THAN \$4.75 PER SHARE**

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**THE TENDER OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME,  
ON MONDAY, APRIL 21, 2003, UNLESS THE TENDER OFFER IS EXTENDED.**

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As set forth in Section 3 of the Offer to Purchase, dated March 21, 2003, this Notice of Guaranteed Delivery, or one substantially in the form hereof, must be used to accept the tender offer if:

- (a) certificates representing shares of common stock, par value \$.001 per share, of QAD Inc., a Delaware corporation, cannot be delivered prior to the "expiration date" (as defined in Section 1 of the Offer to Purchase); or
- (b) the procedure for book-entry transfer cannot be completed before the "expiration date" (as defined in Section 1 of the Offer to Purchase); or
- (c) time will not permit a properly completed and duly executed Letter of Transmittal, or manually signed facsimile thereof, and all other required documents to reach the depository referred to below before the expiration date.

This form or a facsimile of it, signed and properly completed, may be delivered by hand or transmitted by facsimile transmission or mailed to the depository so that it is received by the depository before the expiration date. See Section 3 of the Offer to Purchase.

*The depository for the tender offer is:*

**American Stock Transfer & Trust Company**

*By mail:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
59 Maiden Lane—Plaza Level  
New York, NY 10038

*By overnight delivery or hand delivery:*

American Stock Transfer & Trust Company  
Attn: Reorg Department  
6201 15th Avenue  
Brooklyn, NY 11219

*By facsimile transmission  
(for eligible institutions only):*

(718) 234-5001

For confirmation call:  
(800) 937-5449; or  
(212) 936-5100 (New York and outside  
the United States)

*The information agent for the tender offer is:*

**MORROW & CO., INC.**  
445 Park Avenue, 5th Floor  
New York, NY 10022  
**Stockholders Call Toll Free: (800) 607-0088**  
Banks and Brokers Call: (800) 654-2468  
Call Collect: (212) 754-8000  
Email: QAD.info@morrowco.com

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN THOSE SHOWN ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA THE FACSIMILE NUMBER OTHER THAN THE ONE LISTED ABOVE DOES NOT CONSTITUTE A VALID DELIVERY. DELIVERIES TO QAD, THE DEALER MANAGER (AS DEFINED IN THE OFFER TO PURCHASE) OR THE INFORMATION AGENT (AS DEFINED IN THE OFFER TO PURCHASE) WILL NOT BE FORWARDED TO THE DEPOSITARY AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY. DELIVERIES TO THE BOOK-ENTRY TRANSFER FACILITY (AS DEFINED IN THE OFFER TO PURCHASE) WILL NOT CONSTITUTE VALID DELIVERY TO THE DEPOSITARY.

This Notice of Guaranteed Delivery form is not to be used to guarantee signatures. If a signature on the Letter of Transmittal is required to be guaranteed by an "eligible guarantor institution" (as defined in Section 3 of the Offer to Purchase) under the instructions thereto, such signature must appear in the applicable space provided in the signature box on the Letter of Transmittal.

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Ladies and Gentlemen:

The undersigned hereby tenders to QAD Inc. the number of shares of common stock, par value \$.001 per share, of QAD specified below at the price per share indicated below, net to the seller in cash, without interest, upon the terms and subject to the conditions set forth in the Offer to Purchase, and the related Letter of Transmittal, which, as may be amended and supplemented from time to time, together constitute the tender offer, receipt of which are hereby acknowledged.

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**SHARES TENDERED AT PRICE DETERMINED BY STOCKHOLDER**

(See Instruction 5 of the Letter of Transmittal)

By checking ONE of the following boxes below INSTEAD OF THE BOX UNDER "Shares Tendered at Price Determined under the Tender Offer," the undersigned hereby tenders shares at the the price checked. This action could result in none of the shares being purchased if the purchase price determined by QAD for the shares is less than the price checked below. A stockholder who desires to tender shares at more than one price must complete a separate Letter of Transmittal for each price at which shares are tendered. The same shares cannot be tendered, unless previously properly withdrawn as provided in Section 4 of the Offer to Purchase, at more than one price.

**PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED**

<input type="checkbox"/>	\$	4.75	<input type="checkbox"/>	\$	4.95	<input type="checkbox"/>	\$	5.15
<input type="checkbox"/>	\$	4.80	<input type="checkbox"/>	\$	5.00	<input type="checkbox"/>	\$	5.20
<input type="checkbox"/>	\$	4.85	<input type="checkbox"/>	\$	5.05	<input type="checkbox"/>	\$	5.25
<input type="checkbox"/>	\$	4.90	<input type="checkbox"/>	\$	5.10			

**CHECK ONLY ONE BOX ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, THERE IS NO VALID TENDER OF SHARES.**

**SHARES TENDERED AT PRICE DETERMINED UNDER THE TENDER OFFER**

(See Instruction 5 of the Letter of Transmittal)

☐ The undersigned wants to maximize the chance of having QAD purchase all of the shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking THIS BOX INSTEAD OF ONE OF THE PRICE BOXES ABOVE, the undersigned hereby tenders shares and is willing to accept the purchase price determined by QAD, in accordance with the terms of the tender offer. This action could result in receiving a price per share as low as \$4.75.

2

**ODD LOTS**

To be completed ONLY if shares are being tendered by or on behalf of a person owning beneficially or of record an aggregate of fewer than 100 shares.

On the date hereof the undersigned either (check one):

- ☐ was the beneficial or record owner of an aggregate of fewer than 100 shares, all of which are being tendered; or
- ☐ is a broker, dealer, commercial bank, trust company or other nominee that:
- (a) is tendering, for the beneficial owner(s) thereof, shares with respect to which it is the record holder; and
- (b) believes, based on representations made to it by each such beneficial owner, that each such person was the beneficial owner of an aggregate of fewer than 100 shares, and is tendering all of such shares.

In addition, the undersigned is tendering shares either (check one):

- ☐ at the purchase price, as the same shall be determined by QAD in accordance with the terms of the tender offer (persons checking this box need not indicate the price per share above); or
- ☐ at the price per share indicated above under "Price (in Dollars) per Share at which Shares are being Tendered on this Notice of Guaranteed Delivery.

Please type or print

SIGN HERE:

Dated: \_\_\_\_\_, 2003

Certificate No.(s) (if available)

If shares will be tendered by book-entry transfer, provide the following information:

Name(s)

Account No.:

Address(es)

Country code, area code and telephone number

3

**GUARANTEE  
(NOT TO BE USED FOR SIGNATURE GUARANTEE)**

THE UNDERSIGNED, A BANK, BROKER, DEALER, CREDIT UNION, SAVINGS ASSOCIATION OR OTHER ENTITY WHICH IS A MEMBER IN GOOD STANDING OF THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM OR A BANK, BROKER, DEALER, CREDIT UNION, SAVINGS ASSOCIATION OR OTHER ENTITY WHICH IS AN "ELIGIBLE GUARANTOR INSTITUTION," AS SUCH TERM IS DEFINED IN RULE 17AD-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EACH OF THE FOREGOING CONSTITUTING AN "ELIGIBLE GUARANTOR INSTITUTION", GUARANTEES THE DELIVERY TO THE DEPOSITARY OF THE SHARES TENDERED HEREBY, IN PROPER FORM FOR TRANSFER, OR A CONFIRMATION THAT THE SHARES TENDERED HEREBY HAVE BEEN DELIVERED UNDER THE PROCEDURE FOR BOOK-ENTRY TRANSFER SET FORTH IN THE OFFER TO PURCHASE INTO THE DEPOSITARY'S ACCOUNT AT THE BOOK-ENTRY TRANSFER FACILITY, TOGETHER WITH A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL, OR A MANUALLY SIGNED FACSIMILE THEREOF AND ANY OTHER REQUIRED DOCUMENTS, ALL WITHIN THREE NASDAQ NATIONAL MARKET TRADING DAYS OF THE DATE HEREOF.

Name of firm:

Authorized signature:

Name:

Title:

Address:

Zip code:

Country code, area code and telephone number:

Dated: \_\_\_\_\_, 2003

**DO NOT SEND SHARE CERTIFICATES WITH THIS NOTICE OF GUARANTEED DELIVERY. SHARE CERTIFICATES SHOULD BE SENT WITH YOUR LETTER OF TRANSMITTAL.**

4

QuickLinks

[SHARES TENDERED AT PRICE DETERMINED BY STOCKHOLDER \(See Instruction 5 of the Letter of Transmittal\)](#)  
[PRICE \(IN DOLLARS\) PER SHARE AT WHICH SHARES ARE BEING TENDERED](#)  
[SHARES TENDERED AT PRICE DETERMINED UNDER THE TENDER OFFER \(See Instruction 5 of the Letter of Transmittal\)](#)  
[ODD LOTS](#)

**QAD INC.**

**OFFER TO PURCHASE FOR CASH UP TO 2,600,000 SHARES OF ITS  
COMMON STOCK, PAR VALUE \$.001 PER SHARE,  
AT A PURCHASE PRICE NOT IN EXCESS OF \$5.25 PER SHARE  
NOR LESS THAN \$4.75 PER SHARE**

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**THE TENDER OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON  
MONDAY, APRIL 21, 2003, UNLESS THE TENDER OFFER IS EXTENDED.**

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March 21, 2003

To Brokers, Dealers, Commercial Banks,  
Trust Companies and Other Nominees:

QAD Inc., a Delaware corporation ("QAD"), has appointed us to act as the dealer manager in connection with its offer to purchase for cash up to 2,600,000 shares of its common stock, par value \$.001 per share ("QAD common stock"), at purchase prices, net to the seller in cash, without interest, not in excess of \$5.25 per share nor less than \$4.75 per share, as specified upon the terms and subject to the conditions set forth in its Offer to Purchase, dated March 21, 2003 (the "Offer to Purchase"), and in the related Letter of Transmittal (the "Letter of Transmittal"), which, as amended and supplemented from time to time, together constitute the tender offer.

QAD will, upon the terms and subject to the conditions of the tender offer, determine a single per share price, not in excess of \$5.25 per share nor less than \$4.75 per share, that it will pay for shares properly tendered and not withdrawn under the tender offer, taking into account the number of shares so tendered and the prices specified by tendering stockholders. QAD will select the lowest purchase price which will allow it to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, at a price not in excess of \$5.25 per share nor less than \$4.75 per share, under the tender offer. All shares properly tendered before the "expiration date" (as defined in Section 1 of the Offer to Purchase), at prices at or below the purchase price and not properly withdrawn, will be purchased by QAD at the purchase price, net to the seller in cash, without interest, upon the terms and subject to the conditions of the tender offer, including the odd lot and proration provisions thereof. See Section 1 of the Offer to Purchase. Shares tendered at prices in excess of the purchase price and shares not purchased because of proration will be returned at QAD's expense to the stockholders who tendered such shares as promptly as practicable after the expiration date. QAD reserves the right, in its sole discretion, to purchase more than 2,600,000 shares under the tender offer, subject to applicable law.

If, at the expiration date, more than 2,600,000 shares of QAD common stock, or such greater number of shares as QAD may elect to purchase in accordance with applicable legal requirements, are properly tendered and not properly withdrawn, QAD will, upon the terms and subject to the conditions of the tender offer, accept such shares for purchase first from "odd lot holders" (as defined in Section 1 of the Offer to Purchase) who properly tender all of their shares at or below the purchase price and then on a pro rata basis from all other stockholders tendering at or below the purchase price.

**THE TENDER OFFER IS NOT CONDITIONED ON ANY MINIMUM NUMBER OF SHARES OF QAD COMMON STOCK BEING  
TENDERED. THE TENDER OFFER IS, HOWEVER, SUBJECT TO OTHER CONDITIONS. SEE SECTION 6 OF THE OFFER TO PURCHASE.**

For your information and for forwarding to your clients for whom you hold shares of QAD common stock registered in your name or in the name of your nominee, we are enclosing the following documents:

1. Offer to Purchase, dated March 21, 2003;
2. Letter of Transmittal for your use and for the information of your clients (together with accompanying instructions and Substitute Form W-9);
3. Notice of Guaranteed Delivery to be used to accept the tender offer if the share certificates and all other required documents cannot be delivered to the depository before the expiration date or if the procedure for book-entry transfer cannot be completed before the expiration date;
4. Letter to clients that you may send to your clients for whose accounts you hold shares of QAD common stock registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the tender offer;
5. Guidelines of the Internal Revenue Service for Certification of Taxpayer Identification Number on Substitute Form W-9;
6. Letter dated March 21, 2003, from the Chief Executive Officer of QAD to stockholders of QAD; and
7. Return envelope addressed to the depository.

**WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. THE TENDER OFFER, PRORATION PERIOD AND  
WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MONDAY, APRIL 21, 2003, UNLESS THE TENDER OFFER  
IS EXTENDED.**

No fees or commissions will be payable to brokers, dealers, commercial banks, trust companies or any person for soliciting tenders of shares of QAD common stock under the tender offer other than fees paid to the dealer manager and the information agent, as described in the



Offer to Purchase. QAD will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to the beneficial owners of shares of QAD common stock held by you as a nominee or in a fiduciary capacity. QAD will pay or cause to be paid any stock transfer taxes applicable to its purchase of shares, except as otherwise provided in the Offer to Purchase and Letter of Transmittal.

In order to take advantage of the tender offer, a properly completed and duly executed Letter of Transmittal, or a manually signed facsimile thereof, including any required signature guarantees and any other required documents, must be sent to the depository with either a certificate or certificates representing the tendered shares of QAD common stock or confirmation of their book-entry transfer, all in accordance with the instructions set forth in the Offer to Purchase and Letter of Transmittal.

Holders of shares of QAD common stock whose certificate(s) for such shares are not immediately available, holders who cannot deliver such certificate(s) and all other required documents to the depository or holders who cannot complete the procedures for book-entry transfer before the expiration date must tender their shares according to the procedure for guaranteed delivery set forth in Section 3 of the Offer to Purchase.

The Board of Directors of QAD has approved the tender offer. However, neither QAD nor its Board of Directors nor the dealer manager makes any recommendation to stockholders as to whether to tender or refrain from tendering their shares of QAD common stock. Stockholders must make their own decision as to whether to tender their shares of QAD common stock and, if so, how many shares to tender and at what price. Stockholders should discuss whether to tender all or any portion of their shares with their brokers or other financial and tax advisors. One of QAD's directors and one of its executive officers have advised the company that they currently intend to tender a total of 28,750 shares in the tender offer. QAD's other directors and executive officers have advised the company that they do not intend to tender any shares in the tender offer.

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Any inquiries you may have with respect to the tender offer should be addressed to SG Cowen Securities Corporation, the dealer manager of the tender offer, or to Morrow & Co., Inc, the information agent of the tender offer, at their respective addresses and telephone numbers set forth on the back cover page of the Offer to Purchase.

Additional copies of the enclosed material may be obtained from Morrow & Co., Inc., by calling them at: (800) 654-2468.

Very truly yours,

**SG Cowen Securities Corporation**

Enclosures

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**NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL MAKE YOU OR ANY OTHER PERSON AN AGENT OF QAD, THE DEALER MANAGER, THE INFORMATION AGENT OR THE DEPOSITARY OR ANY AFFILIATE OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE TENDER OFFER OTHER THAN THE DOCUMENTS ENCLOSED HERewith AND THE STATEMENTS CONTAINED THEREIN.**

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**QAD INC.**

**OFFER TO PURCHASE FOR CASH UP TO 2,600,000 SHARES OF ITS  
COMMON STOCK, PAR VALUE \$.001 PER SHARE,  
AT A PURCHASE PRICE NOT IN EXCESS OF \$5.25 PER SHARE  
NOR LESS THAN \$4.75 PER SHARE**

March 21, 2003

To Our Clients:

Enclosed for your consideration are the Offer to Purchase, dated March 21, 2003, and the related Letter of Transmittal, which, as amended and supplemented from time to time, together constitute the tender offer, in connection with the tender offer by QAD Inc., a Delaware corporation ("QAD"), to purchase up to 2,600,000 shares of its common stock, par value \$.001 per share ("QAD common stock"), at purchase prices not in excess of \$5.25 per share nor less than \$4.75 per share, specified by tendering stockholders, net to the sellers in cash, without interest, upon the terms and subject to the conditions set forth in the tender offer.

QAD will, upon the terms and subject to the conditions of the tender offer, determine a single per share price, not in excess of \$5.25 per share nor less than \$4.75 per share, that it will pay for shares properly tendered and not withdrawn under the tender offer, taking into account the number of shares so tendered and the prices specified by tendering stockholders. QAD will select the lowest purchase price that will allow it to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, at prices not in excess of \$5.25 per share nor less than \$4.75 per share, under the tender offer. All shares properly tendered prior to the "expiration date" (as defined in Section 1 of the Offer to Purchase) at prices at or below the purchase price and not properly withdrawn will be purchased at the purchase price, net to the seller in cash, without interest, upon the terms and subject to the conditions of the tender offer, including the odd lot and proration provisions. QAD will return as promptly as practicable after the expiration date, all other shares, including shares tendered at prices greater than the purchase price and shares not purchased because of proration. QAD reserves the right, in its sole discretion, to purchase more than 2,600,000 shares under the tender offer, subject to applicable law. Shares of QAD common stock tendered and not purchased because of proration will be returned promptly after the expiration date at the expense of QAD to the stockholders who tendered such shares. See Section 1 of the Offer to Purchase.

If, at the expiration date, more than 2,600,000 shares of QAD common stock, or such greater number of shares as QAD may elect to purchase in accordance with applicable legal requirements, are properly tendered and not properly withdrawn, QAD will, upon the terms and subject to the conditions of the tender offer, accept shares for purchase first from "odd lot holders" (as defined in Section 1 of the Offer to Purchase) who properly tender all of their shares at or below the purchase price and then on a pro rata basis from all other stockholders tendering at or below the purchase price.

We are the owner of record of shares of QAD common stock held for your account. As such, we are the only ones who can tender your shares, and then only pursuant to your instructions. **WE ARE SENDING YOU THE LETTER OF TRANSMITTAL FOR YOUR INFORMATION ONLY; YOU CANNOT USE IT TO TENDER SHARES OF QAD COMMON STOCK WE HOLD FOR YOUR ACCOUNT.**

Please instruct us as to whether you wish us to tender any or all of the shares of QAD common stock we hold for your account on the terms and subject to the conditions of the tender offer.

We call your attention to the following:

1. You may tender shares of QAD common stock at prices not in excess of \$5.25 per share nor less than \$4.75 per share as indicated in the attached Instruction Form, net to you in cash, without interest.
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2. You should consult with your broker on the possibility of designating the priority in which your shares will be purchased in the event of proration.
  3. The tender offer is not conditioned upon any minimum number of shares being tendered. The tender offer is, however, subject to certain other conditions set forth in Section 6 of the Offer to Purchase.
  4. The tender offer, proration period and withdrawal rights will expire at 5:00 p.m., New York City time, on Monday, April 21, 2003, unless QAD extends the tender offer.
  5. The tender offer is for 2,600,000 shares, constituting approximately 7.56% of the outstanding shares of QAD common stock as of February 28, 2003.
  6. Tendering stockholders who are registered stockholders or who tender their shares directly to American Stock Transfer & Trust Company will not be obligated to pay any brokerage commissions or fees, solicitation fees, or, except as set forth in the Offer to Purchase and the Letter of Transmittal, stock transfer taxes on QAD's purchase of shares under the tender offer.
  7. If you owned beneficially or of record an aggregate of fewer than 100 shares, and you instruct us to tender on your behalf all such shares at or below the purchase price before the expiration date and check the box captioned "Odd Lots" in the attached Instruction Form, QAD, upon the terms and subject to the conditions of the tender offer, will accept all such shares for purchase before proration, if any, of the purchase of other shares properly tendered at or below the purchase price and not properly withdrawn.
  8. If you wish to tender portions of your shares at different prices, you must complete a separate Instruction Form for each price at which you wish to tender each such portion of your shares. We must submit separate Letters of Transmittal on your behalf for each price you will accept.

9. The Board of Directors of QAD has approved the tender offer. However, neither QAD nor its Board of Directors nor the dealer manager makes any recommendation to stockholders as to whether to tender or refrain from tendering their shares of QAD common stock. Stockholders must make their own decision as to whether to tender their shares of QAD common stock and, if so, how many shares to tender and at what price. Stockholders should discuss whether to tender all or any portion of their shares with their brokers or other financial and tax advisors. One of QAD's directors and one of its executive officers have advised the company that they currently intend to tender a total of 28,750 shares in the tender offer. QAD's other directors and executive officers have advised the company that they do not intend to tender any shares in the tender offer.

If you wish to have us tender any or all of your shares of QAD common stock, please so instruct us by completing, executing, detaching and returning to us the attached Instruction Form. If you authorize us to tender your shares of QAD common stock, we will tender all such shares unless you specify otherwise on the attached Instruction Form.

**YOUR INSTRUCTION FORM SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION DATE OF THE TENDER OFFER. THE TENDER OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON MONDAY, APRIL 21, 2003, UNLESS QAD EXTENDS THE TENDER OFFER.**

As described in the Offer to Purchase, if more than 2,600,000 shares, or such greater number of shares as QAD may elect to purchase in accordance with applicable legal requirements, are properly

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tendered and not properly withdrawn before the expiration date, QAD will accept shares for purchase in the following order of priority:

- (a) all shares properly tendered at or at below the purchase price and not properly withdrawn before the expiration date by any odd lot holder who:
  - (1) tenders all shares owned beneficially or of record by such odd lot holder at or below the purchase price (partial tenders will not qualify for this preference); and
  - (2) completes the section captioned "Odd Lots" on the Letter of Transmittal and, if applicable, on the Notice of Guaranteed Delivery; and
- (b) after purchase of all of the foregoing shares, all other shares properly tendered at or below the purchase price and not properly withdrawn before the expiration date on a pro rata basis, if necessary, with adjustments to avoid purchases of fractional shares, as provided in the Offer to Purchase.

The tender offer is being made solely under the Offer to Purchase and the related Letter of Transmittal and is being made to all record holders of shares. The tender offer is not being made to, nor will tenders be accepted from or on behalf of, holders of shares residing in any jurisdiction in which the making of the tender offer or acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

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#### **INSTRUCTION FORM WITH RESPECT TO**

#### **QAD INC.**

#### **OFFER TO PURCHASE FOR CASH UP TO 2,600,000 SHARES OF ITS COMMON STOCK, PAR VALUE \$.001 PER SHARE AT A PURCHASE PRICE NOT IN EXCESS OF \$5.25 PER SHARE NOR LESS THAN \$4.75 PER SHARE**

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase, dated March 21, 2003, and the related Letter of Transmittal, which, as amended and supplemented from time to time, together constitute the tender offer in connection with the tender offer by QAD Inc., a Delaware corporation ("QAD"), to purchase up to 2,600,000 shares of its common stock, par value \$.001 per share ("QAD common stock"), at prices not in excess of \$5.25 per share nor less than \$4.75 per share specified by the undersigned, net to the seller in cash, without interest, upon the terms and subject to the conditions of the tender offer.

The undersigned understands that QAD will, upon the terms and subject to the conditions of the tender offer, determine a single per share price not in excess of \$5.25 per share nor less than \$4.75 per share that it will pay for the shares properly tendered and not withdrawn under the tender offer taking into account the number of shares so tendered and the prices specified by tendering stockholders. QAD will select the lowest purchase price which will allow it to purchase 2,600,000 shares, or such lesser number of shares as are properly tendered, at prices not in excess of \$5.25 per share nor less than \$4.75 per share under the tender offer. All shares properly tendered at prices at or below the purchase price and not properly withdrawn will be purchased at the purchase price, net to the seller in cash, without interest, upon the terms and subject to the conditions of the tender offer, including the odd lot and proration provisions described in the Offer to Purchase. QAD will return as promptly as practicable all other shares, including shares tendered at prices in excess of the purchase price and shares not purchased because of proration.

The undersigned hereby instruct(s) you to tender to QAD the number of shares of QAD common stock indicated below or, if no number is indicated, all shares you hold for the account of the undersigned, under the terms and subject to the conditions of the tender offer.

Aggregate number of shares of QAD common stock to be tendered by you for the account of the undersigned:

\_\_\_\_\_ shares of QAD common stock

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**ODD LOTS**

- ☐ By checking this box, the undersigned represents that the undersigned owns beneficially or of record an aggregate of fewer than 100 shares and is instructing the holder to tender all such shares.

In addition, the undersigned is tendering shares either (check one box):

- ☐ at the purchase price, as the same shall be determined by QAD in accordance with the terms of the tender offer (persons checking this box need not indicate the price per share below), or
- ☐ at the price per share indicated below under "Price (in Dollars) per Share at which Shares are being Tendered."

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**SHARES TENDERED AT PRICE DETERMINED BY STOCKHOLDER**

(See Instruction 5 to the Letter of Transmittal)

By checking ONE of the following boxes below INSTEAD OF THE BOX UNDER "Shares Tendered at Price Determined under the Tender Offer," the undersigned hereby tenders shares at the price checked. This action could result in none of the shares being purchased if the purchase price determined by QAD for the shares is less than the price checked below. A stockholder who desires to tender shares at more than one price must complete a separate Letter of Transmittal for each price at which shares are tendered. The same shares cannot be tendered, unless previously properly withdrawn as provided in Section 4 of the Offer to Purchase, at more than one price.

**PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED**

- |                                 |                                 |                                 |
|---------------------------------|---------------------------------|---------------------------------|
| <input type="checkbox"/> \$4.75 | <input type="checkbox"/> \$4.95 | <input type="checkbox"/> \$5.15 |
| <input type="checkbox"/> \$4.80 | <input type="checkbox"/> \$5.00 | <input type="checkbox"/> \$5.20 |
| <input type="checkbox"/> \$4.85 | <input type="checkbox"/> \$5.05 | <input type="checkbox"/> \$5.25 |
| <input type="checkbox"/> \$4.90 | <input type="checkbox"/> \$5.10 |                                 |

**CHECK ONLY ONE BOX ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, THERE IS NO VALID TENDER OF SHARES.**

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**SHARES TENDERED AT PRICE DETERMINED UNDER THE TENDER OFFER**

(See Instruction 5 to the Letter of Transmittal)

- ☐ The undersigned wants to maximize the chance of having QAD purchase all of the shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking THIS BOX INSTEAD OF ONE OF THE PRICE BOXES ABOVE, the undersigned hereby tenders shares and is willing to accept the purchase price determined by QAD, in accordance with the terms of the tender offer. This action could result in receiving a price per share as low as \$4.75 per share.

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**THE METHOD OF DELIVERY OF THIS DOCUMENT IS AT THE OPTION AND RISK OF THE TENDERING STOCKHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.**

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**SIGNATURE BOX**

Signature(s) \_\_\_\_\_

Dated \_\_\_\_\_, 2003

Name(s) and address(es) \_\_\_\_\_

(Please Print)

Country code, area code and telephone number

Taxpayer Identification or Social Security Number



March 21, 2003

To the Holders of our Common Stock:

We invite our stockholders to tender shares of common stock, \$.001 par value per share, for purchase by QAD Inc. We are offering to purchase up to 2,600,000 shares of our common stock from existing stockholders, subject to the terms set forth in the enclosed Offer to Purchase and the related Letter of Transmittal.

The purchase price paid by us will not be in excess of \$5.25 per share nor less than \$4.75 per share, net to you in cash, without interest. We are conducting the tender offer through a procedure commonly referred to as a "Modified Dutch Auction." This procedure allows you to select the price within the specified price range at which you are willing to sell your shares to us. The actual purchase price will be determined by us in accordance with the terms of the tender offer. All shares purchased under the tender offer will receive the same price.

Any stockholder whose shares are properly tendered directly to American Stock Transfer & Trust Company, the depositary of the tender offer, and purchased under the tender offer will receive the net purchase price in cash, without interest, promptly after the expiration of the tender offer. You may tender all or only a portion of your shares upon the terms and subject to the conditions of the tender offer. Stockholders who own fewer than 100 shares should note that the tender offer represents an opportunity for them to sell their shares without reduction for any odd lot discounts.

The terms and conditions of the tender offer are explained in detail in the enclosed Offer to Purchase and the related Letter of Transmittal. I encourage you to read these materials carefully before making any decision with respect to the tender offer. The instructions on how to tender shares are also explained in detail in the accompanying materials.

Our Board of Directors has approved the tender offer. However, neither we nor our Board of Directors nor the dealer manager of the tender offer make any recommendation to you as to whether you should tender or refrain from tendering your shares. You must make your own decision as to whether to tender your shares and, if so, how many shares to tender and at what price. You should discuss whether to tender all or any portion of your shares with your broker or other financial and tax advisors.

One of our directors and one of our executive officers have advised us that they currently intend to tender a total of 28,750 shares in the tender offer. Our other directors and executive officers have advised us that they do not intend to tender any shares in the tender offer. Recovery Equity Investors II, L.P., an affiliate of one of our directors and whose shares may be deemed to be beneficially owned by such director, has also advised us that it does not intend to tender any shares in the offer.

The tender offer will expire at 5:00 p.m., New York City time, on Monday, April 21, 2003, unless extended by us. If you have any questions regarding the tender offer or need assistance in tendering your shares, please contact Morrow & Co., Inc., the information agent of the tender offer, at (800) 607-0088, or SG Cowen Securities Corporation, the dealer manager of the tender offer, at (800) 746-3430.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Karl F. Lopker', is written over a horizontal line.

Karl F. Lopker  
Chief Executive Officer

## STOCKHOLDERS' AGREEMENT

STOCKHOLDERS' AGREEMENT dated as of December 23, 1999, by and among QAD INC., a Delaware corporation (the "*Company*"), RECOVERY EQUITY INVESTORS II, L.P., a Delaware limited partnership ("*REI*"), Pamela M. Lopker, Karl F. Lopker and The Lopker Family Trust dated March 23, 1993, a trust formed under the laws of California (the "*Lopker Trust*") (Pamela M. Lopker, Karl F. Lopker, the Lopker Trust, REI and any other persons who may become party to this Agreement pursuant to the terms hereof, the "*Stockholders*").

### WITNESSETH:

WHEREAS, pursuant to that certain Stock Purchase Agreement dated as of December 23, 1999, by and among the Company, REI, Pamela M. Lopker, Karl F. Lopker and the Lopker Trust (as the same may be amended, supplemented or otherwise modified from time to time, the "*Purchase Agreement*"), the Company is issuing 2,333,333 shares of the common stock, par value \$.001 per share, of the Company (the "*Common Stock*") to REI on the terms and subject to the conditions set forth in the Purchase Agreement;

WHEREAS, pursuant to the Purchase Agreement, REI is purchasing from the Lopker Trust, on the date hereof, 444,445 shares of Common Stock on the terms and subject to the conditions set forth in the Purchase Agreement;

WHEREAS, pursuant to the Purchase Agreement, the Company is issuing to REI a warrant exercisable for an aggregate of 225,000 shares of Common Stock (as the same may be amended, supplemented or otherwise modified from time to time, including with respect to the aggregate number of shares of Common Stock issuable thereunder, the "*Warrant*");

WHEREAS, contemporaneously with the execution of this Agreement, the Company and REI are entering into a Registration Rights Agreement pursuant to which the Company is granting to REI Stockholders certain registration rights with respect to the Common Stock, including shares issuable upon any exercise of the Warrant;

WHEREAS, it is a condition precedent to the Company's, REI's, Pamela M. Lopker's, Karl F. Lopker's and the Lopker Trust's respective obligations to consummate the transactions contemplated by the Purchase Agreement that the parties hereto shall have entered into this Agreement; and

WHEREAS, the parties desire to enter into certain agreements for the purpose of governing certain aspects of the management of the Company and their relationship as stockholders.

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

SECTION 1. *Certain Definitions.* The following defined terms, when used in this Agreement, shall have the respective meanings set forth below (such definitions to be equally applicable to both singular and plural forms of the terms defined):

"*Affiliate*" means, with respect to any Person, (a) any other Person directly or indirectly controlling, controlled by or under common control with, that Person, (b) any other Person that owns or controls (i) 5% or more of any class of equity securities of that Person or any of its Affiliates or (ii) 5% or more of any class of equity securities (including any equity securities issuable upon the exercise of any option, warrant, convertible security or similar right) of that Person or any of its Affiliates, or (c) any director, partner, officer, agent, employee or relative of that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that Person, whether through ownership of voting securities or by Contract or otherwise.

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"*Commission*" means the Securities and Exchange Commission and any other similar or successor agency of the federal government administering the Securities Act.

"*Equity Equivalents*" means the Warrant and any other securities which, by their terms, are or may be exercisable, convertible or exchangeable for or into Common Stock at the election of the holder thereof.

"*Fully-Diluted Basis*" means, with respect to the calculation of the number of shares of Common Stock of the Company, the sum of (i) the number of shares of Common Stock outstanding at the time of determination plus (ii) the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any Equity Equivalents outstanding at the time of determination.

"*Lopker Stockholders*" means Pamela M. Lopker, Karl F. Lopker, the Lopker Trust and their respective Permitted Transferees who have executed a Joinder Agreement in substantially the form of Exhibit A, so long as any such person shall hold Subject Securities.

"*Original Ownership Level*" means, with respect to any Stockholder, the number of shares of Common Stock (on a Fully-Diluted Basis), as adjusted for any stock splits, stock dividends, recapitalizations or other similar events, held by such Stockholder immediately after the consummation of the transactions contemplated by the Purchase Agreement.

"*Permitted Transferee*" means:

- (i) with respect to any Stockholder who is a natural person, the spouse or any lineal descendant (including by adoption and stepchildren) of such Stockholder, or any trust or family limited partnership of which such Stockholder is the trustee or the general partner and which is established solely for the benefit of any of the foregoing individuals and whose terms are not inconsistent with the terms of this Agreement; and

(ii) with respect to any Stockholder who is not a natural person, (A) any Affiliate of such Stockholder and any trustee, officer, director or employee of such Stockholder or any such Affiliate, (B) any spouse, lineal descendant (including by adoption and stepchildren) of the trustees, officers, directors and employees referred to in clause (A) above, and any trust where a majority in interest of the beneficiaries thereof are one or more of the persons described in this clause (B) and the trustees, officers, directors and employees described in clause (A) above and whose terms are not inconsistent with the terms of this Agreement; and

(iii) as to any REI Stockholder, (A) any other REI Stockholder, (B) any general partner or limited partner of REI (and any subsequent transferee of such partner), (C) any partner, member, director, officer, employee or investment advisor of any such general partner or limited partner, (D) any Affiliate of any such general partner or limited partner, (E) any director, officer, employee, investment advisor, partner or member of any such Affiliate, and (F) any liquidating trust or similar entity established by REI or any of the foregoing entities for the benefit of its partners or interest holders and their Permitted Transferees for the purpose of holding Restricted Securities.

"Person" or "person" means an individual, partnership, corporation, trust, unincorporated organization, limited liability company, joint venture, government (or any agency or political subdivision thereof) or any other entity of any kind.

"REI Stockholders" means REI and its Permitted Transferees who have executed a Joinder Agreement in substantially the form of Exhibit A, so long as any such person shall hold Subject Securities.

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"Registration Rights Agreement" means that certain Registration Rights Agreement, dated as of December 23, 1999, between the Company and REI as the same may be amended, supplemented or otherwise modified from time to time.

"Securities Act" means the Securities Act of 1933, as amended from time to time, and the rules and regulations of the Commission thereunder.

"Subject Securities" means the Common Stock, any Equity Equivalents and any securities issued with respect thereto as a result of any stock dividend, stock split, reclassification, recapitalization, reorganization, merger, consolidation or similar event or upon the conversion, exchange or exercise thereof.

"Transfer" means any direct or indirect sale, transfer, assignment, grant of a participation in, gift, hypothecation, pledge or other disposition of any securities or any interests therein or, as the context may require, to sell, transfer, assign, grant a participation in, give as a gift, hypothecate, pledge or otherwise dispose of, directly or indirectly, any securities or any interests therein.

## SECTION 2. *Election and Removal of Directors.*

(a) *Designation of Directors.* At any time when directors of the Company are nominated and elected, for so long as REI shall hold Subject Securities representing (on a Fully-Diluted Basis) at least 50% of REI's Original Ownership Level, REI shall be entitled to designate one person for election to the board of directors of the Company (the "Board"), in each case by written notice to the Company and the other Stockholders; *provided, however*, that REI shall no longer be permitted to designate any person for election to the Board pursuant to this Section 2 if REI shall at any time cease to hold Subject Securities representing (on a Fully-Diluted Basis) at least 50% of REI's Original Ownership Level. Each person designated by REI for election to the Board pursuant to this Section 2 (an "REI Designee") shall be included in the slate of nominees recommended by the Board to the Company's stockholders for election as directors at each annual meeting (or special meeting or solicitation for the election of directors) of the stockholders of the Company and each of the Company and the Stockholders agree to take such other action as is necessary to nominate and elect the REI Designee as a member of the Board as soon as practicable following receipt of any such notice and, in the case of the first such notice, in any event not later than the time of the first meeting of the Board, or the first written consent executed by the Board, following the Closing (as defined in the Purchase Agreement).

(b) If, prior to his or her election to the Board pursuant to this Section 2, the REI Designee shall be unable or unwilling to serve as a director of the Company, REI shall be entitled to nominate a replacement who shall then be the REI Designee for purposes of this Section 2. Subject to the immediately preceding sentence but notwithstanding anything else in this Section 2 to the contrary, Jeffrey A. Lipkin shall be the REI Designee for so long as he shall be a general partner of REI's general partner. In the event that Mr. Lipkin ceases to be a general partner of REI's general partner or is otherwise unwilling or unable to serve as a director of the Company, REI shall use its reasonable efforts to designate, as the REI Designee, a person (x) as to whom no disclosure would be required to be made at the time of such designation pursuant Rule 401(f) or Rule 404 of Regulation S-K (other than by reason of the management and closing fees payable to REI pursuant to the Purchase Agreement), (y) who, at the time of such designation, is not an officer, director or Affiliate of either (A) a significant customer of the Company or (B) a significant competitor of the Company, and (z) who, prior to the time of such designation, has not engaged in conduct that has resulted in the disqualification of another Person from listing on a national securities exchange or Nasdaq.

(c) *Removal.* Subject to paragraph (b) above, REI shall have the exclusive right, at any time and for any reason (or for no reason), to require that the REI Designee be removed from the

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Board by written notice to the each of the Company and the other Stockholders. Each of the Company and the Stockholders agree to take such action, and to cause the remaining directors of the Company to take such action, as is necessary to remove such person as a director of the Company as soon as practicable following receipt of such notice.

(d) *Filling Vacancies.* If at any time a vacancy is created on the Board by reason of the death, removal or resignation of the REI Designee, REI shall have the exclusive right to designate a person to fill such vacancy by written notice to the Company and the other



Stockholders. The Company and the Stockholders agree to take such action and to cause the remaining directors of the Company to take such action, as is necessary to nominate, approve and elect such person as a director of the Company as soon as practicable following receipt of such notice.

(e) *Covenant to Vote.* The Stockholders agree to vote or cause to be voted the Subject Securities owned or controlled by them (i) at any annual or special meeting of stockholders of the Company called for the purpose of voting on the election or removal of directors of the Company, or (ii) by executing a written consent in lieu of a meeting of the stockholders of the Company with respect to the election or removal of directors, in favor of the election or removal of directors of the Company in accordance with the provisions of this Section 2.

(f) *Irrevocable Proxy.* If any Stockholder fails for any reason to vote its Subject Securities in accordance with the requirements of this Agreement, then REI shall have the right to vote such shares, and each Stockholder hereby constitutes and appoints, with full power of substitution, REI as his, her or its true and lawful proxy and attorney-in-fact, to attend, speak and vote at any meeting of the stockholders and to sign a written consent in respect of, all of the Subject Securities owned by the grantor of the proxy for the election to or removal from the Board of the directors designated by REI, upon the failure of such Stockholder to vote in accordance with Section 2 of this Agreement. Such appointment shall terminate at such time as the grantor no longer is obligated to vote his, her or its Subject Securities in accordance with the requirements of this Agreement. Each Stockholder acknowledges that the proxy granted by it hereby is for valuable consideration and is irrevocable to the full extent permitted by law.

### SECTION 3. *Transfer Restrictions.*

(a) Each Stockholder agrees that all Transfers by it of Subject Securities shall be made in accordance with the terms of this Agreement. Any attempt to Transfer or any purported Transfer of any Subject Securities not in accordance with the terms of this Agreement shall be null and void and neither the Company nor any transfer agent of such securities shall give any effect to such attempted Transfer in its stock records.

(b) Each of the Stockholders severally agrees that upon any Transfer by it of Subject Securities to a Permitted Transferee, it shall cause such Permitted Transferee to execute a Joinder Agreement substantially in the form of Exhibit A and thereby become a party to this Agreement.

(c) Each certificate representing the Subject Securities now or hereafter held by a Stockholder shall be stamped with a legend in substantially the following form:

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING SUCH SECURITIES, OR THE ISSUER, UPON REQUEST, RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF THESE SECURITIES REASONABLY SATISFACTORY TO THE ISSUER, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT. THE SHARES REPRESENTED BY THIS

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CERTIFICATE ARE SUBJECT TO A STOCKHOLDERS' AGREEMENT DATED DECEMBER 23, 1999, A COPY OF WHICH IS ON FILE AT THE OFFICE OF THE ISSUER AND WILL BE FURNISHED TO ANY PROSPECTIVE PURCHASER ON REQUEST. SUCH STOCKHOLDERS' AGREEMENT PROVIDES, AMONG OTHER THINGS, FOR CERTAIN RESTRICTIONS ON THE SALE, TRANSFER OR OTHER DISPOSITION OF THE SHARES REPRESENTED BY THIS CERTIFICATE."

Each Stockholder agrees that he, she or it will deliver all certificates for the Subject Securities owned by it to the Company for the purpose of affixing such legend thereto. Any certificate issued at any time in exchange or substitution for any certificate bearing such legends (except a new certificate issued upon the completion of a Transfer pursuant to a registered public offering under the Securities Act and made in accordance with the Securities Act) shall also bear such legends, unless the Subject Securities represented thereby are no longer subject to the provisions of this Agreement or, in the opinion of the Company (with advice from counsel to the Company, as the Company may deem appropriate), the restrictions imposed under the Securities Act or any state securities law, in which case the applicable legend (or legends) may be removed.

### SECTION 4. *Rights of Inclusion (Tag-Along Rights).*

(a) In the event that one or more Lopker Stockholders propose to Transfer any shares (or other units) of Subject Securities (the "Transferor Shares") to any Person (the "Buyer"), other than a Transfer to a Permitted Transferee or a Rule 144 Transaction (as such term is defined in the Registration Rights Agreement), as a condition to such Transfer, the Lopker Stockholders shall cause the Buyer to offer (the "Inclusion Offer") to purchase from each REI Stockholder, at such REI Stockholder's option, up to that number of shares of Subject Securities determined in accordance with Section 4(b) on the same terms and conditions as are applicable to the Transferor Shares, except that each REI Stockholder shall not be required to provide any representation, warranty or indemnification other than with respect to its ownership of, and authority to Transfer, the Subject Securities owned by it free of any liens or encumbrances. The Lopker Stockholders shall provide prompt written notice to each REI Stockholder (the "Inclusion Notice") setting forth all the terms and conditions of the Inclusion Offer, and each REI Stockholder may accept the Inclusion Offer in whole or in part by providing a written notice of acceptance with respect to the Subject Securities owned by it to the Lopker Stockholders within 10 business days of delivery of the Inclusion Notice to it (the "Acceptance Notice").

(b) The REI Stockholders, in the aggregate, shall have the right to sell, pursuant to the Inclusion Offer, Subject Securities representing (on a Fully-Diluted Basis) the same percentage of all shares of Subject Securities owned by them as the Transferor Shares are of all shares of Subject Securities (on a Fully-Diluted Basis, but excluding any Equity Equivalents that are then either (i) not exercisable at the election of the holder thereof or (ii) "out of the money") owned by the Lopker Stockholders. In the event the number of shares of Subject Securities for which the REI Stockholders elect to exercise such right, along with the shares of Subject Securities to be sold by the Lopker Stockholders, exceed the number of shares which the Buyer is willing to purchase, the number of shares to be Transferred to the Buyer by each REI Stockholder shall be reduced so that each REI Stockholder is entitled to Transfer the same percentage of its shares included in its Acceptance Notice as each other REI Stockholder.

(c) The Lopker Stockholders shall have 90 days, commencing on the date of the Inclusion Notice, in which to Transfer, on behalf of themselves and the REI Stockholders, up to the number of shares covered by the Inclusion Offer (including the Transferor Shares) to the Buyer. The terms of such Transfer, including, without limitation, price and form of consideration, shall be as set forth in the Inclusion Notice. If at the end of such 90 day period, the Lopker Stockholders have not completed the Transfer of the shares of Common Stock proposed to be Transferred, the Lopker

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Stockholders may not proceed with such Transfer or any other Transfer without first giving a new Inclusion Notice pursuant to the provisions of this Section 4.

(d) If the Lopker Stockholders are able to complete the Transfer of the shares proposed to be Transferred within such 90 day period, at the closing thereof, each REI Stockholder shall deliver to the Buyer a certificate or certificates representing the Subject Securities owned by it to be Transferred pursuant to the Inclusion Offer, free and clear of all liens and encumbrances, and the Buyer shall pay to each REI Stockholder the purchase price for the Subject Securities so Transferred pursuant to this Section 4 and shall furnish such other evidence of the completion of such Transfer and the terms thereof as may be reasonably requested by such REI Stockholder.

SECTION 5. *After-Acquired Shares.* All of the provisions of this Agreement shall apply to all of the Subject Securities now owned or hereafter issued or transferred to a Stockholder in consequence of any additional issuance, purchase, exchange, exercise of conversion rights or reclassification of shares of Common Stock, corporate reorganization, or any other form of recapitalization, or consolidation, or merger, or share split, or share dividend, or capitalization issue; *provided, however*, that the provisions of this Agreement shall not apply to any Subject Securities acquired by any REI Stockholder from any Person (other than any other REI Stockholder or the Company) after the date hereof, it being understood that the Subject Securities held by any REI Stockholder shall be treated for purposes of this Section 5 as being owned on a "first in, first out" basis.

SECTION 6. *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of New York without giving effect to any choice of law or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of New York, except to the extent that the General Corporation Law of the State of Delaware applies as a result of the Company being incorporated in the State of Delaware, in which case such General Corporation Law shall apply.

SECTION 7. *Entire Agreement; Amendments.* This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and may be amended, modified or supplemented only by a written instrument duly executed by (a) the Company, (b) REI Stockholders which then hold in the aggregate more than 50% of the aggregate shares of Subject Securities on a Fully-Diluted Basis then held by all REI Stockholders, and (c) Lopker Stockholders which then hold in the aggregate more than 50% of the aggregate shares of Subject Securities on a Fully-Diluted Basis then held by all Lopker Stockholders. In the event of an amendment, modification or supplement of this Agreement in accordance with its terms, each of the Company and the Stockholders shall take all actions reasonably within its control that are necessary or appropriate, within 30 calendar days following such amendment, modification or supplement, or as soon thereafter as is practicable, to cause the adoption of any amendment to the Certificate of Incorporation or By-Laws of the Company that may be required as a result of such amendment, modification or supplement to this Agreement. The Stockholders hereby agree to vote their shares of Subject Securities to approve each such amendment to the Certificate of Incorporation or By-Laws of the Company.

SECTION 8. *Term.* Except for the provisions of Sections 6 through 18 hereof, this Agreement shall automatically and without further action terminate upon the earliest to occur of (i) the first date as of which the REI Stockholders cease to own Subject Securities representing (on a Fully-Diluted Basis) at least 25% of REI's Original Ownership Level and (ii) the written agreement of (x) REI Stockholders which then hold in the aggregate more than 50% of the aggregate shares of Subject Securities on a Fully-Diluted Basis then held by all REI Stockholders and (y) Lopker Stockholders which then hold in the aggregate more than 50% of the aggregate shares of Subject Securities on a Fully-Diluted Basis then held by all Lopker Stockholders.

SECTION 9. *Waiver.* No waiver by any party hereto of any term or condition of this Agreement, in one or more instances, shall be valid unless in writing, and no such waiver shall be deemed to be

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construed as a waiver of any subsequent breach or default of the same or any other term or condition hereof.

SECTION 10. *Successors and Assigns.* Except as otherwise expressly provided herein, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns (including transferees of Subject Securities); *provided, however*, that nothing contained herein shall be construed as granting any Stockholder the right to Transfer any of its Subject Securities except in accordance with this Agreement.

SECTION 11. *Remedies.* In the event of a breach by any party to this Agreement of its obligations under this Agreement, any party hereto injured by such breach, in addition to being entitled to exercise all rights granted by law, including recovery of damages and costs (including reasonable attorneys' fees), will be entitled to specific performance of its rights under this Agreement. The parties hereto agree that the provisions of this Agreement shall be specifically enforceable, it being agreed by the parties hereto that the remedy at law, including monetary damages, for breach of any such provision will be inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at law would be adequate is waived. Such equitable remedies and all other remedies are cumulative and not exclusive and shall be in addition to any remedies which any party hereto may have under this Agreement or otherwise.

SECTION 12. *Invalid Provisions.* If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added

automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

SECTION 13. *Headings; Certain Conditions.* The headings of the various Articles and Sections of this Agreement are for convenience of reference only and shall not define, limit or otherwise affect any of the terms or provisions hereof. Unless the context otherwise expressly requires, all references herein to Articles, Sections and Exhibits, are to Article and Sections of, and Exhibits to, this Agreement. The words "herein," "hereunder" and "hereof" and words of similar import refer to this Agreement as a whole and not to any particular Section or provision. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

SECTION 14. *Further Assurances.* Each party hereto shall cooperate and shall take such further action and shall execute and deliver such further documents as may be reasonably requested by any other party hereto in order to carry out the provisions and purposes of this Agreement.

SECTION 15. *Gender.* Whenever the pronouns "he" or "his" are used herein they shall also be deemed to mean "she" or "hers" or "it" or "its" whenever applicable, and vice versa. Words in the singular shall be read and construed as though in the plural and words in the plural shall be construed as though in the singular in all cases where they would so apply.

SECTION 16. *Counterparts.* This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

SECTION 17. *Notices.*

(a) All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally against written receipt or by facsimile transmission or mailed (by registered or certified mail, postage prepaid, return receipt requested) or delivered by reputable overnight courier, fee prepaid, to the parties hereto at the following addresses or facsimile numbers:

- (i) If to any REI Stockholder, to:

Recovery Equity Investors II, L.P.  
901 Mariner's Island Boulevard, Suite 465  
San Mateo, California 94404  
Facsimile No.: (415) 578-9842  
Attn: Joseph J. Finn-Egan  
Jeffrey A. Lipkin

with a copy to:

Morgan, Lewis & Bockius LLP  
101 Park Avenue  
New York, New York 10178  
Facsimile No.: (212) 309-6273  
Attn: James A. Mercadante, Esq.

- (ii) If to the Company, to:

QAD Inc.  
6450 Via Real  
Carpinteria, CA 93013-2924  
Facsimile No: (805) 566-6080  
Attn: Chief Financial Officer

with a copy to

10,000 Midlantic, #200 East  
Mt. Laurel, NJ 08054-1520  
Facsimile No: (856) 840-2695  
Attn: General Counsel

And a copy to

Nida & Maloney, LLP  
800 Anacapa Street  
Santa Barbara, CA 93101-2212  
Facsimile No: (805) 568-1955  
Attn: Joseph E. Nida, Esq.

- (iii) If to any Lopker Stockholder, to:

Karl F. Lopker  
c/o QAD Inc.  
6450 Via Real  
Carpinteria, CA 93013  
Facsimile No.: (805) 566-6080

8

with a copy to:

Nida & Maloney, LLP  
800 Anacapa Street  
Santa Barbara, CA 93101  
Facsimile No.: (805) 568-1955  
Attn: Joseph E. Nida

(b) All such notices, requests and other communications will be deemed delivered upon receipt. Any party hereto may from time to time change its address, facsimile number or other information for the purpose of notices to such party by giving notice specifying such change to the other parties hereto in accordance with Section 17(a).

SECTION 18. *Consent to Jurisdiction and Service of Process.* EACH OF THE PARTIES HERETO CONSENTS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF NEW YORK, STATE OF NEW YORK AND IRREVOCABLY AGREES THAT ALL ACTIONS OR PROCEEDINGS RELATING TO THIS AGREEMENT MAY BE LITIGATED IN SUCH COURTS. EACH OF THE PARTIES HERETO ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. EACH OF THE PARTIES HERETO FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE PARTY AT THE ADDRESS SPECIFIED IN THIS AGREEMENT, SUCH SERVICE TO BECOME EFFECTIVE 15 DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL IN ANY WAY BE DEEMED TO LIMIT THE ABILITY OF ANY PARTY HERETO TO SERVE ANY SUCH LEGAL PROCESS, SUMMONS, NOTICES AND DOCUMENTS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW OR TO OBTAIN JURISDICTION OVER OR TO BRING ACTIONS, SUITS OR PROCEEDINGS AGAINST ANY OF THE OTHER PARTIES HERETO IN SUCH OTHER JURISDICTIONS, AND IN SUCH MANNER, AS MAY BE PERMITTED BY ANY APPLICABLE LAW.

SECTION 19. *Waiver of Jury Trial.* EACH OF THE PARTIES HERETO HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT. EACH OF THE PARTIES HERETO ALSO WAIVES ANY BOND OR SURETY OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER, BE REQUIRED OF SUCH PARTY. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS AGREEMENT, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. EACH OF THE PARTIES HERETO FURTHER WARRANTS AND REPRESENTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS A WRITTEN CONSENT TO A TRIAL BY THE COURT.

[Signature Page Follows]

9

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as a deed on the date first above written.

QAD INC.

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

Name:  
Title:

RECOVERY EQUITY INVESTORS II, L.P.

By: RECOVERY EQUITY PARTNERS II, L.P.,  
its General Partner

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

Name: Joseph J. Finn-Egan

Title: *General Partner*

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

Name: Jeffrey A. Lipkin  
Title: *General Partner*

\_\_\_\_\_  
PAMELA M. LOPKER

\_\_\_\_\_  
KARL F. LOPKER

THE LOPKER LIVING TRUST DATED MARCH 23, 1993

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

Karl F. Lopker, in his capacity as a trustee of  
such trust and not in his individual capacity

[Signature page to Stockholders' Agreement]

10

**Exhibit A**

### **Form of Joinder Agreement**

QAD Inc.  
[Address]

Attention:

Ladies & Gentlemen:

In consideration of the transfer to the undersigned of \_\_\_\_\_ shares of Common Stock of QAD INC., a Delaware corporation (the "*Company*"), by **[insert name of transferor]**, the undersigned agrees that, as of the date written below, **[he][she][it]** shall become a party to that certain Stockholders' Agreement dated as of December 23, 1999, as such agreement may have been amended from time to time (the "*Agreement*"), among the Company and the persons named therein, and shall be fully bound by, and subject to, all of the covenants, terms and conditions of the Agreement that were applicable to the undersigned's transferor, as though an original party thereto, and shall be deemed a Stockholder for all purposes thereof.

Executed as of the \_\_\_\_\_ day of \_\_\_\_\_,

SIGNATORY:

Address:

ACKNOWLEDGED AND ACCEPTED:

QAD INC.

By \_\_\_\_\_

Name:  
Title:

11

QuickLinks

[Exhibit \(d\)\(iii\)](#)

STOCKHOLDERS' AGREEMENT

Exhibit A

Form of Joinder Agreement

THIS WARRANT, AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF, HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED OR HYPOTHECATED UNLESS THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT COVERING THIS WARRANT OR SUCH SECURITIES (AS APPLICABLE), OR THE ISSUER, UPON REQUEST, RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF THIS WARRANT OR SUCH SECURITIES (AS APPLICABLE) REASONABLY SATISFACTORY TO THE ISSUER STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

THIS WARRANT, AND THE SECURITIES ISSUABLE UPON EXERCISE HEREOF, ARE SUBJECT TO A STOCKHOLDERS' AGREEMENT DATED AS OF DECEMBER 23, 1999, AS IN EFFECT FROM TIME TO TIME, A COPY OF WHICH IS ON FILE AT THE OFFICE OF THE ISSUER AND WILL BE FURNISHED TO ANY PROSPECTIVE PURCHASER ON REQUEST. SUCH STOCKHOLDERS' AGREEMENT PROVIDES, AMONG OTHER THINGS, FOR CERTAIN RESTRICTIONS ON THE SALE, TRANSFER OR OTHER DISPOSITION OF THIS WARRANT OR SUCH SECURITIES.

### STOCK PURCHASE WARRANT

Date of Issuance: December 23, 1999

Certificate No. 1

For value received, QAD INC., a Delaware corporation (the "*Company*"), hereby grants to RECOVERY EQUITY INVESTORS II, L.P., a Delaware limited partnership, or its registered assigns (the "*Registered Holder*"), the right to purchase from the Company, at any time or from time to time during the Exercise Period, 225,000 Warrant Shares at the Exercise Price. This Warrant is issued to REI on the Date of Issuance pursuant to the Stock Purchase Agreement. The Exercise Price and number of Warrant Shares (and the amount and kind of other securities) for which this Warrant is exercisable shall be subject to adjustment and subject to rights to receive other securities, all as provided herein. Certain capitalized terms used herein are defined in Section 5 hereof.

This Warrant is subject to the following provisions:

#### I. SECTION *Exercise of Warrant.*

1A. *Exercise Period.* The purchase rights represented by this Warrant may be exercised, in whole or in part, at any time and from time to time, commencing on the Date of Issuance through 5:00 p.m., New York time, on December 22, 2003, or, if such day is not a Business Day, on the next succeeding Business Day (the "*Exercise Period*").

#### 1B. *Exercise Procedure.*

1. This Warrant shall be deemed to have been exercised when all of the following items have been delivered to the Company (the "*Exercise Time*");

(1) a completed Exercise Agreement, as described in Section 1C below, executed by the Person exercising all or part of the purchase rights represented by this Warrant (the "*Purchaser*");

(1) this Warrant;

(1) if the Purchaser is not the Registered Holder, an Assignment or Assignments in the form set forth in *Exhibit II* hereto evidencing the assignment of this Warrant to the Purchaser; and

(1) either (A) a check or wire transfer payable to the Company in an amount equal to the product of (x) the Exercise Price *multiplied by* (y) the number of Warrant Shares

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being purchased upon such exercise (the "*Aggregate Exercise Price*") or (B) the delivery of a notice to the Company that the Purchaser is exercising this Warrant (or a portion thereof) by authorizing the Company to reduce the number of Warrant Shares to be delivered to the Purchaser upon such exercise of this Warrant (or such portion thereof) by the number of Warrant Shares having an aggregate Fair Market Value determined as of the Exercise Time equal to the Aggregate Exercise Price.

1. Certificates for Warrant Shares (rounded up to the nearest whole share) purchased upon exercise of this Warrant shall be delivered by the Company to the Purchaser within three Business Days after the date of the Exercise Time.

1. Unless this Warrant has expired or all of the purchase rights represented hereby have been exercised, the Company shall prepare a new Warrant, substantially identical hereto, representing the rights formerly represented by this Warrant which have not expired or been exercised and shall, within three Business Days after the date of the Exercise Time, deliver such new Warrant to the Person designated for delivery in the Exercise Agreement.

1. The Warrant Shares issuable upon the exercise of this Warrant shall be deemed to have been issued to the Purchaser at the Exercise Time, and the Purchaser shall be deemed for all purposes to have become the Registered Holder of such Warrant Shares at the Exercise Time.

1. The issuance of certificates for Warrant Shares upon exercise of this Warrant shall be made without charge to the Registered Holder or the Purchaser for any issuance tax in respect thereof or other cost incurred by the Company in connection with

such exercise and the related issuance of Warrant Shares; *provided, however*, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance of any Warrants or any certificates representing Warrant Shares in a name other than that of a Registered Holder, and the Company shall not be required to issue or deliver such Warrant or certificate for Warrant Shares unless and until the Person requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the reasonable satisfaction of the Company that such tax has been paid.

1. The Company shall not close its books against the transfer of this Warrant or of any Warrant Shares issued or issuable upon the exercise of this Warrant in any manner which interferes with the timely exercise of this Warrant. The Company shall from time to time take all such action as may be necessary to assure that the par value per share, if any, of the unissued Warrant Shares acquirable upon exercise of this Warrant is at all times equal to or less than the Exercise Price then in effect. In the event that the Company fails to comply with its obligations set forth in the foregoing sentence, in addition to all other rights which the Registered Holder or Purchaser may have at law or in equity, the Purchaser may (but shall not be obligated to) purchase Warrant Shares hereunder at par value, and the Company shall be obligated to reimburse the Purchaser for the aggregate amount of consideration paid in connection with such exercise in excess of the Exercise Price then in effect.

1. The Company shall assist and cooperate with any reasonable request by the Registered Holder or Purchaser in connection with any governmental filings or approvals required to be obtained or made by any of them prior to or in connection with any exercise of this Warrant (including, without limitation, making any filings or obtaining any approvals required to be made or obtained by the Company).

1. Notwithstanding any other provision hereof, if an exercise of any portion of this Warrant is to be made in connection with a public offering or a sale of the Company (pursuant to a merger, sale of stock, sale of assets or otherwise), then such exercise may at

the election of the Registered Holder be conditioned upon the consummation of such transaction, in which case such exercise shall not be deemed to be effective until immediately prior to the consummation of such transaction.

1. The Company shall at all times reserve and keep available out of its authorized but unissued Warrant Shares and solely for the purpose of issuance upon the exercise of this Warrant, the maximum number of Warrant Shares issuable upon the exercise of this Warrant. All Warrant Shares which are so issuable shall, when issued and upon the payment of the applicable Exercise Price, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges. The Company shall take all such actions as may be necessary to ensure that all such Warrant Shares may be so issued without violation by the Company of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Common Stock or other securities constituting Warrant Shares may be listed (except for official notice of issuance which shall be immediately delivered by the Company upon each such issuance) or any violation by the Company of any agreement to which the Company or any of its assets or properties may be subject. The Company will cause the Warrant Shares, immediately upon such exercise, to be listed on each domestic securities exchange or quotation system upon which shares of Common Stock or other securities constituting Warrant Shares are listed or quoted at the time of such exercise.

1. If the Warrant Shares issuable by reason of exercise of this Warrant are convertible into or exchangeable for any other stock or securities, then the Company shall, at the Purchaser's option and upon surrender of this Warrant by such Purchaser as provided above together with any notice, statement or payment required to effect such conversion or exchange of Warrant Shares, deliver to such Purchaser (or as otherwise specified by such Purchaser) a certificate or certificates representing the stock or securities into which the Warrant Shares issuable by reason of such exercise are convertible or exchangeable, registered in such name or names and in such denomination or denominations as such Purchaser has specified.

1C. *Exercise Agreement.* Upon any exercise of this Warrant, the Purchaser shall deliver to the Company an Exercise Agreement in substantially the form set forth in *Exhibit I* hereto, except that if the Warrant Shares are not to be issued in the name of the Registered Holder, the Exercise Agreement shall also state the name of the Person to whom the certificates for the Warrant Shares are to be issued, and if the number of Warrant Shares to be issued does not include all of the Warrant Shares purchasable hereunder, it shall also state the name of the Person to whom a new Warrant for the unexercised portion of the rights hereunder is to be issued.

I. SECTION *Adjustment of Exercise Price and Number of Shares.* In order to prevent dilution of the rights granted under this Warrant, the Exercise Price shall be subject to adjustment from time to time as provided in this Section 2, and the number of Warrant Shares obtainable upon exercise of this Warrant shall be subject to adjustment from time to time, as provided in this Section 2.

2A. *Adjustment of Exercise Price and Number of Shares upon Issuance of Common Stock.* If and whenever, on or after the Date of Issuance, the Company issues or sells, or in accordance with Section 2B is deemed to have issued or sold, other than pursuant to a Permitted Issuance, and other than pursuant to an event for which an adjustment is made pursuant to Section 2C, any shares of Common Stock for a consideration per share less than the Exercise Price in effect immediately prior to such issuance or sale, then immediately upon such issuance or sale the Exercise Price shall be reduced to equal the amount determined by multiplying the Exercise Price in effect immediately prior to such issuance or sale by a fraction, the numerator of which will be the sum of (A) the number of shares of Common Stock Deemed Outstanding immediately prior to such issuance or sale multiplied by the Exercise Price in effect immediately prior to such issuance or sale, plus (B) the consideration, if any, received by the Company upon such issuance or sale,

and the denominator of which will be the product derived by multiplying the Exercise Price in effect immediately prior to such issuance or sale by the number of shares of Common Stock Deemed Outstanding immediately after such issuance or sale. Upon each such adjustment of the Exercise Price hereunder, the number of Warrant Shares acquirable upon exercise of this Warrant shall be adjusted to equal the



number of shares determined by multiplying the Exercise Price in effect immediately prior to such adjustment by the number of Warrant Shares acquirable (whether or not then acquirable or subject to a contingency) upon exercise of this Warrant immediately prior to such adjustment and dividing the product thereof by the Exercise Price resulting from such adjustment. For purposes of this Section 2, the calculation of the number of shares of Common Stock Deemed Outstanding shall exclude the number of Warrant Shares issuable upon exercise of the Warrants.

2B. *Effect on Exercise Price of Certain Events.* For purposes of determining the adjusted Exercise Price under Section 2A, the following shall be applicable:

1. *Issuance of Rights or Options.* If the Company in any manner grants any rights or options to subscribe for or to purchase (including, without limitation, the issuance of any notes or other debt instruments convertible into or payable in) Common Stock or any stock or other securities convertible into or exchangeable for Common Stock (including without limitation convertible common stock) (such rights or options being herein called "*Options*" and such convertible or exchangeable stock or securities being herein called "*Convertible Securities*") other than a Permitted Issuance, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon conversion or exchange of such Convertible Securities is less than the Exercise Price in effect immediately prior to such issuance or sale, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to be outstanding and to have been issued and sold by the Company for such price per share. For purposes of this paragraph, the "price per share for which Common Stock is issuable upon exercise of such Options or upon conversion or exchange of such Convertible Securities" is determined by dividing (A) the total amount, if any, received or receivable by the Company as consideration for the granting of such Options, plus the minimum aggregate amount of additional consideration payable to the Company upon the exercise of all such Options, plus in the case of such Options which are exercisable for Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable to the Company upon the issuance or sale of such Convertible Securities and the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options. No further adjustment of the Exercise Price shall be made upon the actual issuance of such Common Stock or of such Convertible Securities upon the exercise of such Options or upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities.

1. *Issuance of Convertible Securities.* If the Company in any manner issues or sells any Convertible Securities and the price per share for which Common Stock is issuable upon such conversion or exchange is less than the Exercise Price in effect immediately prior to such issuance or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities shall be deemed to be outstanding from and after the date on which such Convertible Securities were issued and sold, and to have been issued and sold by the Company for such price per share. For the purposes of this paragraph, the "price per share for which Common Stock is issuable upon such conversion or exchange" is determined by dividing (A) the total amount received or receivable by the

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Company as consideration for the issue or sale of all such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Company upon the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities. No further adjustment of the Exercise Price shall be made upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities, and if any such issuance or sale of such Convertible Securities is made upon exercise of any Options for which adjustment of the Exercise Price has been or is to be made pursuant to other provisions of this Section 2B, no further adjustment of the Exercise Price shall be made by reason of such issuance or sale.

1. *Change in Option Price or Conversion Rate.* If the purchase price provided for in any Options, the amount of Common Stock or Convertible Securities that may be purchased upon exercise of any Option, the additional consideration, if any, payable upon the issuance, conversion or exchange of any Convertible Securities, or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock, changes at any time, the Exercise Price in effect at the time of such change shall be adjusted to the Exercise Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, amount of Common Stock or Convertible Securities, additional consideration or changed conversion rate, as the case may be, at the time initially granted, issued or sold and the number of Warrant Shares shall be correspondingly readjusted.

1. *Treatment of Expired Options and Unexercised Convertible Securities.* Upon the expiration of any Option or the termination of any right to convert or exchange any Convertible Securities, in either case without the exercise of such Option or right, the Exercise Price then in effect and the number of Warrant Shares acquirable hereunder (whether or not then acquirable or subject to a contingency) shall be adjusted to the Exercise Price and number of Warrant Shares which would have been in effect at the time of such expiration or termination had such Option or Convertible Securities, to the extent not exercised in full and outstanding immediately prior to such expiration or termination, never been issued.

1. *Calculation of Consideration Received.* If any Common Stock, Options or Convertible Securities are issued or sold or deemed to have been issued or sold for cash, the consideration received therefor shall be deemed to be the net amount received by the Company therefor. In case any Common Stock, Options or Convertible Securities are issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Company shall be the fair value of such consideration, except where such consideration consists of marketable securities, in which case the amount of consideration received by the Company shall be the market price thereof as of the date of receipt. In case any Common Stock, Options or Convertible Securities are issued to the owners of the non-surviving entity in connection with any merger or other business combination in which the Company is the surviving entity, the amount of consideration therefor shall be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Options or Convertible Securities, as the case may be. The fair value of any consideration other than cash or marketable securities shall be determined jointly by the

Company and the Required Holders. If such parties are unable to reach agreement within a reasonable period of time, such fair value shall be determined by an independent investment banking or appraisal firm jointly selected by the Company and the Required Holders, whose determination shall be final and binding on the Company and the Registered Holder. If the Required Holders and the Company are unable to agree upon an independent investment banking or appraisal firm, then the Required Holders shall select one such independent

investment banking or appraisal firm and the Company shall select another such firm, and the calculation of fair value shall be made by a third independent investment banking or appraisal firm that has been selected by the two firms so chosen by the Required Holders and the Company. In each such case, the firm calculating fair value shall submit to the Company and to each Registered Holder such firm's written opinion addressed to each such Registered Holder setting forth such determination of fair value. If the independent investment banking or appraisal firm gives a range for its calculation of fair value, then fair value for purposes of this paragraph shall be the midpoint of such range. The fees and expenses of such firm shall be paid by the Company.

1. *Integrated Transactions.* In case any Option is issued in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to such Options by the parties thereto, the Option shall be deemed to have been issued for no consideration.

1. *Treasury Shares.* For the purposes of this Section 2, (A) the number of shares of Common Stock outstanding at any given time does not include shares owned or held by or for the account of the Company or any direct or indirect subsidiary of the Company and (B) the disposition of any shares so owned or held shall be considered an issue or sale of Common Stock.

1. *Record Date.* If the Company takes a record of the holders of Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be either (x) the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or (y) the date of the issuance, granting or sale of such right of subscription or purchase, as the case may be.

2C. *Subdivision or Combination of Common Stock.* If the Company at any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) the outstanding Common Stock into a greater number of shares or pays a dividend or makes a distribution to holders of the Common Stock in the form of shares of Common Stock, then the Exercise Price in effect immediately prior to such subdivision shall be proportionately reduced and the number of Warrant Shares obtainable upon exercise of this Warrant (whether or not then acquirable or subject to a contingency), as the case may be, shall be proportionately increased. If the Company at any time combines (by reverse stock split or otherwise) the outstanding Common Stock into a smaller number of shares, then the Exercise Price in effect immediately prior to such combination shall be proportionately increased and the number of Warrant Shares obtainable upon exercise of this Warrant (whether or not then acquirable or subject to a contingency), as the case may be, shall be proportionately decreased.

2D. *Organic Change.* Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Company's assets or other transaction which is effected in such a way that holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock is referred to herein as an "Organic Change". Prior to the consummation of any Organic Change, the Company shall make appropriate provision (in form and substance reasonably satisfactory to the Required Holders) to ensure that each Registered Holder shall thereafter have the right to acquire and receive upon exercise thereof, in lieu of or addition to (as the case may be) the Warrant Shares immediately theretofore acquirable and receivable upon exercise of such Registered Holder's Warrants (whether or not then acquirable or subject to a contingency), such

shares of stock, securities or assets as may be issued or payable with respect to or in exchange for the number of Warrant Shares immediately theretofore acquirable and receivable (whether or not then acquirable or subject to a contingency) upon exercise of such Registered Holder's Warrants had such Organic Change not taken place. In any such case, the Company shall make appropriate provision (in form and substance satisfactory to the Required Holders) with respect to such Registered Holder's rights and interests to insure that the provisions hereof (including, without limitation, Sections 2, 3 and 4) shall thereafter be applicable to the Warrants (including, without limitation, in the case of any such Organic Change in which the successor entity or purchasing entity is other than the Company, an immediate adjustment of the Exercise Price to the product of the Exercise Price immediately prior to such Organic Change multiplied by the ratio of such value of the Common Stock reflected by the terms of such Organic Change divided by the Fair Market Value of the Common Stock in effect immediately prior to such Organic Change and a corresponding immediate adjustment to the number of Warrant Shares acquirable and receivable upon exercise of the Warrants (whether or not then acquirable or subject to a contingency), if the value so reflected is less than the Fair Market Value of the Common Stock in effect immediately prior to such Organic Change). The Company shall not effect any such Organic Change unless, prior to the consummation thereof, the successor entity (if other than the Company) resulting from such Organic Change (including a purchaser of all or substantially all the Company's assets) assumes by written instrument (in form and substance satisfactory to the Required Holders) the obligation to deliver to each Registered Holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such Registered Holder may be entitled to acquire upon exercise of Warrants.

2E. *Certain Events.* If any event occurs of the type contemplated by the provisions of this Section 2 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features but excluding any Permitted Issuance), then the Company's Board of Directors shall make an appropriate adjustment in the Exercise Price and the number of Warrant Shares obtainable upon exercise of this Warrant (whether or not then acquirable or subject to a contingency) so as to protect the rights of the Registered Holder of this Warrant; *provided* that no such adjustment shall increase the

Exercise Price or decrease the number of Warrant Shares issuable upon exercise hereof other than as a readjustment in a manner consistent with that contemplated by Section 2(B)(iv).

2F. *Actions to Maintain Exercise Price Above Par Price.* Before taking any action that would cause an adjustment to the Exercise Price such that, upon exercise of the Warrant, Warrant Shares would be deemed to be issued below the then par value (if any) of the Common Stock, the Company will take any corporate action which may, in the opinion of its counsel, be reasonably necessary in order that the Company may validly and legally issue fully paid and non-assessable Warrant Shares at the Exercise Price.

2G. *Notices.*

1. Immediately upon any adjustment of the Exercise Price, the chief financial officer or president of the Company shall compute such adjustment in accordance with the provisions hereof and prepare and sign a certificate showing such adjustment, and shall mail such certificate, by first class mail, postage prepaid, to the Registered Holder. The certificate shall set forth the computations on which such adjustment is based, showing in detail the facts upon which such adjustment is based, including without limitation a statement of the number of Warrant Shares which will be issuable upon the exercise of this Warrant.

1. The Company shall give written notice to the Registered Holder at least 30 days prior to the date on which the Company closes its books or takes a record (A) with respect to

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any dividend or distribution upon the Common Stock, (B) with respect to any pro rata subscription offer to holders of Common Stock, or (C) for determining rights to vote with respect to any Organic Change or any dissolution, liquidation or winding-up of the Company.

1. The Company shall also give written notice to the Registered Holder at least 30 days prior to the date on which any Organic Change or any dissolution, liquidation or winding-up of the Company shall take place.

I. SECTION *Purchase Rights.* If at any time the Company grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of the Common Stock (the "*Purchase Rights*"), then the Registered Holder shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such Registered Holder would have acquired if such Registered Holder had held the maximum number of Warrant Shares acquirable (whether or not then acquirable or subject to a contingency) upon complete exercise of this Warrant immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

I. SECTION *Definitions.* The following terms have the meanings set forth below and terms not otherwise defined herein have the meaning assigned to them in the Stock Purchase Agreement:

"*Aggregate Exercise Price*" has the meaning ascribed to it in Section 1B(i)(d) hereof.

"*Business Day*" means a day other than Saturday, Sunday or any day on which banks located in the States of New York or California are authorized or obligated to close.

"*Common Stock*" means the Common Stock, par value \$.001 per share, of the Company, any securities into which such Common Stock shall have been changed or any securities resulting from any reclassification or recapitalization of such Common Stock, and all other securities of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, after payment on any securities entitled to a preference on dividends or other distributions upon any dissolution or winding up, either to all or to a share of the balance of payments upon such dissolution, liquidation or winding up.

"*Common Stock Deemed Outstanding*" means, at any given time, the number of shares of all classes of the Company's Common Stock actually outstanding at such time, plus the number of shares of the Company's Common Stock deemed to be outstanding pursuant to Section 2B(i) or 2B(ii) hereof.

"*Company*" has the meaning ascribed to it in the first paragraph of this Warrant.

"*Convertible Securities*" has the meaning ascribed to it in Section 2B(i) hereof.

"*Date of Issuance*" means December 23, 1999, regardless of the number of times new certificates representing the unexpired and unexercised rights formerly represented by this Warrant shall be issued.

"*Exercise Period*" has the meaning ascribed to it in Section 1A hereof.

"*Exercise Price*" means \$7.50 for each Warrant Share, as such price may be adjusted from time to time pursuant to Section 2 hereof.

"*Exercise Time*" has the meaning ascribed to it in Section 1B(i) hereof.

"*Fair Market Value*" means, with respect to each share of Common Stock as of a particular date (i) the closing sales price on such date of the Common Stock on the principal domestic securities exchange on which the Common Stock is listed, or (ii) if there have been no sales on

such exchange on any day, the average of the highest bid and lowest asked prices on such exchange at the end of such day, or (iii) if on any day the Common Stock is not listed on any domestic securities exchange, the sales price for the Common Stock as of 4:00 P.M., New York time, as reported on the Nasdaq National Market, in each such case averaged over a period of 30 trading days consisting of the day before "Fair Market Value" is being determined and the immediately prior 29 trading days prior to such day during which the Common Stock was traded. Notwithstanding the foregoing, if at any time of determination either (x) the Common Stock is not registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, and either listed on a national securities exchange or authorized for quotation in the Nasdaq National Market, or (y) less than 25% of the outstanding Common Stock is held by the public free of transfer restrictions under the Securities Act of 1933, as amended, then Fair Market Value shall mean the price that would be paid per share for the entire common equity interest in the Company in an orderly sale transaction between a willing buyer and a willing seller, using valuation techniques then prevailing in the securities industry and assuming full disclosure of all relevant information and a reasonable period of time for effectuating such sale, without discount for lack of liquidity, or minority position. Fair Market Value shall be determined jointly by the Company's Board of Directors in its good faith judgment and the Required Holders. If such parties are unable to agree as to such a joint determination of Fair Market Value within 15 days of notice by one party to the other of the necessity of calculating Fair Market Value for purposes of this Warrant, then, such value shall be determined by an independent investment banking or appraisal firm mutually acceptable to the Company and the Required Holders. If the Required Holders and the Company are unable to agree upon an independent investment banking or appraisal firm, then the Required Holders shall select one such independent investment banking or appraisal firm and the Company shall select another such firm, and the calculation of Fair Market Value shall be made by a third such independent investment banking or appraisal firm that has been selected by the two firms so chosen by the Required Holders and the Company. In each such case, the firm calculating Fair Market Value shall submit to the Company and each Registered Holder such firm's written opinion addressed to each such Registered Holder setting forth such determination. If the independent investment banking or appraisal firm gives a range for its calculation of Fair Market Value, then Fair Market Value shall be the midpoint of such range. The fees and expenses of such firm will be borne by the Company, and the determination of such firm will be final and binding upon all parties.

"Options" has the meaning ascribed to it in Section 2B(i) hereof.

"Organic Change" has the meaning ascribed to it in Section 2D hereof.

"Permitted Issuance" means (i) the issuance from time to time by the Company of shares of Common Stock upon exercise of the Warrant (as the Warrant may be amended, supplemented or otherwise modified from time to time in accordance with the provisions hereof) (and any replacements hereof), (ii) the issuance from time to time by the Company of shares of Common Stock upon exercise of any Option that is outstanding on the Date of Issuance and disclosed in the attachment to Schedule 3.3(a) of the Stock Purchase Agreement, (iii) the issuance of any Options or Common Stock from time to time in accordance with the provisions of the Stock Plans or any comparable equity participation plan for directors, officers and employees of the Company that has been duly approved by stockholders representing at least 66% of the Company's then outstanding Common Stock, and the issuance from time to time of shares of Common Stock upon exercise of any such Options, and (iv) the issuance of any other Options, Convertible Securities or Common Stock, *provided* that this clause (iv) shall not apply to any such issuance if, after giving effect thereto, the aggregate amount of Common Stock issued in all transactions covered by this clause (iv) (assuming the exercise, conversion or exchange of all such Options and Convertible

Securities) would exceed 10% of the number of shares of Common Stock outstanding on the Date of Issuance.

"Person" means any individual, corporation, joint stock corporation, limited liability company or partnership, general partnership, limited partnership, proprietorship, joint venture, other business organization, trust, union, association or governmental or regulatory authority.

"Purchase Rights" has the meaning ascribed to it in Section 3 hereof.

"Purchaser" has the meaning ascribed to it in Section 1B(i)(a) hereof.

"Registered Holder" has the meaning ascribed thereto in the first paragraph of this Warrant.

"REI" means Recovery Equity Investors II, L.P., a Delaware limited partnership.

"Required Holders" means, at any time of determination, holders of Warrants that represent more than 50% of all of the Warrant Shares then issuable upon exercise of the Warrants then outstanding.

"Stock Plans" means the QAD Inc. 1994 Stock Program and the QAD Inc. 1997 Stock Incentive Program, in each case as in effect on the Date of Issuance.

"Stock Purchase Agreement" means the Stock Purchase Agreement, dated as of the date hereof, among the Company, Pamela M. Lopker, Karl F. Lopker, The Lopker Living Trust dated March 23, 1993 and REI (as such agreement may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof).

"Stockholders' Agreement" means the Stockholders' Agreement, dated as of the date hereof, among the parties to the Stock Purchase Agreement (as such Stockholders' Agreement may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof).

"Warrants" means this Stock Purchase Warrant and any other Warrants issued pursuant to Section 7 or 8 hereof.

"Warrant Shares" means shares of Common Stock; *provided*, that if the securities issuable upon exercise of the Warrants are issued by an entity other than the Company or there is a change in the class of securities so issuable, then the term "Warrant Shares" shall mean shares of the security issuable upon exercise of the Warrants if such security is issuable in shares, or shall mean the equivalent units in which such security is issuable if such security is not issuable in shares.

I. SECTION *No Voting Rights; Limitations of Liability.* This Warrant shall not entitle the Registered Holder hereof to any voting rights or other rights as a stockholder of the Company. No provision hereof, in the absence of affirmative action by the Registered Holder to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Registered Holder shall give rise to any liability of such Registered Holder for the Exercise Price of Warrant Shares acquirable by exercise hereof or as a stockholder of the Company.

I. SECTION *Warrant Transferable.* Subject to the transfer conditions referred to in the legend endorsed hereon, this Warrant and all rights hereunder are transferable, in whole or in part, without charge to the Registered Holder (subject to the provisions of paragraph 1B(iv) hereof), upon surrender of this Warrant with a properly executed Assignment (in the form of *Exhibit II* hereto) at the principal office of the Company. The Registered Holder shall not sell, transfer or otherwise dispose of this Warrant or any Warrant Shares, in whole or in part, except pursuant to an effective registration statement under the Securities Act or an exemption from registration thereunder.

10

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Each certificate evidencing shares of Warrant Shares and each Warrant issued upon such transfer shall bear the restrictive legends set forth on this Warrant and those required by the Stockholders' Agreement.

I. SECTION *Warrant Exchangeable for Different Denominations.* This Warrant is exchangeable, upon the surrender hereof by the Registered Holder at the principal office of the Company, for new Warrants of like tenor representing in the aggregate the purchase rights hereunder, and each of such new Warrants shall represent such portion of such rights as is designated by the Registered Holder at the time of such surrender. All Warrants representing portions of the rights hereunder are also referred to herein as "Warrants."

I. SECTION *Replacement.* Upon receipt of evidence reasonably satisfactory to the Company (an affidavit of the Registered Holder shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing this Warrant, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Company (provided that if the Registered Holder is a financial institution or other institutional investor its own agreement shall be satisfactory) or, in the case of any such mutilation upon surrender of such certificate, the Company shall (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the same rights represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate.

I. SECTION *Notices.* Except as otherwise expressly provided herein, all notices and deliveries referred to in this Warrant shall be in writing, shall be delivered personally, sent by registered or certified mail, return receipt requested and postage prepaid or sent via nationally recognized overnight courier or via facsimile, and shall be deemed to have been given when so delivered (or when received, if delivered by any other method) if sent (i) to the Company, at its principal executive offices and (ii) to a Registered Holder, at such Registered Holder's address as it appears in the records of the Company (unless otherwise indicated by any such Registered Holder).

I. SECTION *Amendment and Waiver.* Except as otherwise provided herein, the provisions of the Warrants may be amended and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company has obtained the prior written consent of the Required Holders.

I. SECTION *Warrant Register.* The Company shall maintain at its principal executive offices books for the registration and the registration of transfer of Warrants. The Company may deem and treat the Registered Holder as the absolute owner hereof (notwithstanding any notation of ownership or other writing thereon made by anyone) for all purposes and shall not be affected by any notice to the contrary.

I. SECTION *Descriptive Headings; Governing Law.* The descriptive headings of the several Sections and paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. **ALL QUESTIONS CONCERNING THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE DOMESTIC LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW OR CONFLICT OF LAW PROVISION OR RULE (WHETHER OF THE STATE OF NEW YORK OR ANY OTHER JURISDICTION) THAT WOULD CAUSE THE APPLICATION OF THE LAWS OF ANY JURISDICTION OTHER THAN THE STATE OF NEW YORK.**

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11

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IN WITNESS WHEREOF, the Company has caused this Warrant to be signed and attested by its duly authorized officers under its corporate seal and to be dated as of the date hereof.

QAD INC.

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

Name:  
Title:

Attest:

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Name:  
Title:

12

**EXHIBIT I**

**EXERCISE AGREEMENT**

Dated:

To:

The undersigned, pursuant to the provisions set forth in the attached Warrant (Certificate No. \_\_\_\_\_), hereby agrees to subscribe for the purchase of **[all of the] [Insert number]** Warrant Shares covered by such Warrant and makes payment herewith in full therefor at the price per share and in the manner provided by such Warrant.

Signature

\_\_\_\_\_

Address

\_\_\_\_\_

**EXHIBIT II**

**ASSIGNMENT**

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns and transfers all of the rights of the undersigned under the attached Warrant (Certificate No. \_\_\_\_\_) with respect to **[all of the] [Insert number]** Warrant Shares covered thereby set forth below, unto:

Names of Assignee

Address

No. of Shares

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Dated:

Signature

\_\_\_\_\_

Witness

\_\_\_\_\_

\_\_\_\_\_

QuickLinks

[Exhibit \(d\)\(iv\)](#)

[STOCK PURCHASE WARRANT](#)

[EXHIBIT I](#)

[EXERCISE AGREEMENT](#)

[EXHIBIT II](#)

[ASSIGNMENT](#)

## FORM OF EMPLOYEE RETENTION AGREEMENT

This EMPLOYEE RETENTION AGREEMENT (this "*Agreement*"), is made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ by and between QAD Inc., a Delaware corporation, with its principal offices located at 6450 Via Real, Carpinteria, California 93013 (together with its successors and assigns permitted under this Agreement, the "*Company*"), and \_\_\_\_\_ (the "*Employee*").

### W I T N E S S E T H:

WHEREAS the Board of Directors of the Company (the "*Board*") has determined that it is in the best interests of the Company and its stockholders to assure that the Company will have the continued dedication of the Employee, notwithstanding the possibility, threat or occurrence of a Change in Control (as defined below) of the Company;

WHEREAS the Board believes it is imperative to diminish the inevitable distraction of the Employee by virtue of the personal uncertainties and risks created by a pending or threatened Change in Control, to encourage the Employee's full attention and dedication to the Company currently and in the event of any threatened or pending Change in Control, and to provide the Employee with compensation arrangements upon a Change in Control which provide the Employee with individual financial security and which are competitive with those of other corporations; and

WHEREAS in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the Company and the Employee (individually a "*Party*" and together the "*Parties*") agree as follows.

#### 1. DEFINITIONS.

In addition to the definitions set forth above, the following terms shall have the meanings set forth in this Section 1.

1.1 "*Base Monthly Salary*" shall mean the monthly base compensation of the Employee.

1.2 "*Board*" shall mean the Board of Directors of the Company.

1.3 "*Cause*" shall mean (a) the Employee is convicted of a felony involving property of the Company, or (b) the Employee, in carrying out the Employee's duties under this Agreement, is guilty of willful refusal to perform, or willful neglect of, the Employee's duties.

1.4 A "*Change in Control*" shall be deemed to exist upon the occurrence of any of the following events:

(a) Any person (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than Pamela M. Lopker and Karl F. Lopker as joint holders (collectively, the "*Lopkers*"), or either of them or a living trust for their benefit over which they maintain control of the assets of the trust and the voting rights for shares in the trust, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the total voting power represented by the Company's then outstanding voting securities and the Lopkers own less than Thirty Percent (30%) of the total voting power represented by the Company's then outstanding voting securities.

(b) A change in the composition of the Board occurring within a two (2) year period, as a result of which fewer than a majority of the directors are Incumbent Directors.

(c) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company; or such surviving entity outstanding immediately after such merger or consolidation.

(d) The stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all, or substantially all, of the Company's assets.

1.5 "*Disability*" shall mean that the Employee has been unable to perform their duties under this Agreement as a result of the Employee's incapacity due to physical or mental illness with or without reasonable accommodation, and such inability, at least twenty-six (26) weeks after its commencement, is determined to be total and permanent by a physician selected by the Company, or its insurers, and acceptable to the Employee or the Employee's legal representative (such statement of acceptability not to be unreasonably withheld).

1.6 "*Incumbent Directors*" shall mean directors who either (a) are directors of the Company as of the date of this Agreement, or (b) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors of the Company).

2. *CHANGE IN CONTROL SEVERANCE BENEFITS.* In the event there occurs a Change in Control and the Employee's employment with the Company is terminated on or before eighteen (18) months after the date of the Change in Control, then the following shall apply:

(a) *Voluntary Resignation; Termination for Cause.* If the Employee's employment terminates in a voluntary resignation, or if the

Employee is terminated for Cause, or if the Employee voluntarily accepts a position below the level currently held by the Employee at the time of a Change in Control then the Employee shall not be entitled to receive severance benefits except for those (if any) as may be available under the Company's severance and benefits plans and policies existing at the time of such termination.

(b) *Constructive Termination; Termination Without Cause.* If the Employee suffers Constructive Termination (as defined below) or is terminated by the Company without Cause, then the Employee shall be entitled to:

- (1) An amount equal to ( ) times the greater of (x) the Employee's Base Monthly Salary at the time of the Change in Control or (y) the Employee's Base Monthly Salary at the time of the termination of the Employee's employment;
- (2) an amount equal to the greater of (x) the average annual bonus received by the Employee during the two (2) fiscal years immediately prior to the termination of the Employee's employment or (y) the bonus that would be due for the fiscal year at the time of the termination of the Employee's employment if the Employee and the Company met the on target goals to receive such bonus;
- (3) immediate vesting or any options granted to the Employee;
- (4) continuation of all employee benefits and perquisites, including life insurance, health benefits, disability insurance, cars and expense reimbursement, and 401(k) matching payments and vesting for a period following such termination of employment for twelve (12) months, or,

2

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at the Company's sole discretion, the economic equivalent thereof based on their value immediately prior to the Change in Control; and

(5) all rights to continuation of medical coverage pursuant to the Consolidated Omnibus Reconciliation Act of 1986 ("COBRA") shall continue to be available to the Employee.

(c) *Existing Plan and Policies Superseded.* Payments hereunder supersede the Company's existing severance and benefit plans and policies existing at the time of termination and are not in addition thereto.

(d) *Death; Disability.* If the Employee's employment terminates due to the Employee's Disability or death, then such termination shall be treated as if it were a termination without Cause and severance and other benefits shall be provided in accordance with paragraph (b) above.

3. *CONSTRUCTIVE TERMINATION OF EMPLOYMENT.* For purposes of this Agreement, "*Constructive Termination*" shall mean and exist if, without the Employee's prior written consent, one or more of the following events occurs and the Employee shall elect to terminate the Employee's employment with the Company including, but not limited to, a request by the Company to accept a position below the level currently held by the Employee at the time of a Change in Control:

(a) The Employee is assigned any duties or responsibilities that are inconsistent, in any significant respect, with the scope of duties and responsibilities associated with the Employee's position prior to such assignment;

(b) The Employee suffers a reduction in the authorities, duties or responsibilities associated with the Employee's position prior to such assignment, on the basis of which the Employee makes a determination in good faith that the Employee can no longer carry out such position in the manner contemplated at the time this Agreement was entered into;

(c) The Employee's Base Monthly Salary is decreased by the Company, or the Employee's benefits or opportunities under any employee benefit or incentive plan or program of the Company is or are materially reduced other than in connection with a reduction in salary or benefits generally applicable to all employees of the Company;

(d) The Employee's own office location, as provided for in this Agreement, is relocated to a location more than twenty-five (25) miles from the Employee's then present location;

(e) The Company fails to pay the Employee any deferred payments under any bonus or incentive plans in a timely manner;

(f) The Company fails to reimburse the Employee for business expenses in accordance with the Company's policies, procedures or practices;

(g) The Company fails to agree to or actually indemnify the Employee for the Employee's actions and/or inactions, as either a director or officer of the Company, to the fullest extent permitted by Delaware law, and the Company fails to maintain reasonable levels of directors and officers liability insurance coverage for the Employee when such insurance is available;

(h) The Company fails to obtain a written agreement from any successor or assign of the Company to assume and perform Employee's employment agreement as then in effect and this Agreement; or

(i) The Company purports to terminate the Employee's employment for Cause and such purported termination of employment is not effected in accordance with the procedures required by this Agreement, and for purposes of this Agreement, such purported termination of employment shall be invalid and of no force and effect.

3

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4. **NO MITIGATION; NO OFFSET.** In the event of any termination of employment covered by this Agreement, the Employee shall be under no obligation to seek other employment and there shall be no offset against amounts due the Employee under this Agreement on account of any remuneration attributable to any subsequent employment that the Employee may obtain. Any amounts due under this Agreement are in the nature of severance payments, or liquidated damages, or both, and are not in the nature of a penalty.

5. **EXCISE TAX REDUCTION.** Notwithstanding anything herein to the contrary, if any amounts due the Employee under this Agreement constitute "*Parachute Payments*," as such term is defined in Section 280G of the Internal Revenue Code of 1986 (the "*Code*") and the amount of the Parachute Payments, reduced by all federal, state and local taxes applicable with respect thereto, including the excise tax imposed pursuant to Section 4999 of the Code, is less than the amount the Employee would receive, after taxes, if the Employee were paid only three times the Employee's "*Base Amount*" (as defined in Section 280G) less one dollar (\$1.00), then, in lieu of the Parachute Payments, the Employee shall be paid an amount in cash equal to three times the Base Amount less one dollar (\$1.00). In the event that there is a reduction in compensation required to comply with Section 280G of the Code in accordance with this section, the Employee shall have the right to determine which elements of the compensation shall be reduced. The determinations to be made with respect to this subsection shall be made by an independent auditor (the "*Auditor*") jointly selected by the Parties. The Auditor shall be a nationally recognized United States public accounting firm which has not during the two years preceding the date of its selection acted, in any way, on behalf of the Company or its Affiliates.

6. **OPTION ACCELERATION.**

(a) **Option Acceleration upon Change of Control.** In the event of a Change of Control fifty percent (50%) of the then unvested portion of any stock option held by the Employee under the Company's stock option plans and outstanding at the time of the Change in Control shall become vested and the Employee shall automatically have the right to exercise all, or any portion, of such stock option to the extent so vested in addition to any portion of the option exercisable prior to the Change in Control. Where the Change in Control results from a merger or consolidation of the Company with any other corporation, such vesting shall occur immediately prior to consummation of such merger or consolidation, and is contingent upon the consummation of such merger or consolidation.

(b) **Option Acceleration Following Change in Control.** Subject to the continued employment of the Employee, after acceleration of vesting under paragraph (a) above, the remaining unvested portion of any stock option shall become fully vested upon the first anniversary of the Change in Control (or the expiration date of such stock option, if earlier). If, however, the Employee's employment terminates within the twelve (12) month period following the Change of Control, then the vesting of such stock options shall be handled in accordance with the Change in Control Severance Benefits set forth above.

7. **EFFECT OF AGREEMENT ON OTHER BENEFITS.** Nothing in this Agreement shall curtail the Employee's entitlement to full participation in the executive compensation, employee benefit and other plans or programs in which employees of the Company are eligible to participate.

8. **AT-WILL EMPLOYMENT.** The Company and the Employee acknowledge that the Employee's employment is at will and may be terminated at any time and for any reason, with or without notice. On termination of the Employee's employment, the Employee shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Agreement, or as may otherwise be available in accordance with the Company's established employee plans and policies at the time of termination.

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9. **MISCELLANEOUS.**

9.1 **Governing Law.** This Agreement shall be governed in all respects by the laws of the State of California.

9.2 **Successors and Assigns.** Except as otherwise provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

9.3 **Entire Agreement: Amendment.** This Agreement constitutes the full and entire understanding and agreement between the parties with regard to the subject hereof and thereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Employee.

9.4 **Notices.** Except as may be otherwise provided herein, all notices and other communications required or permitted hereunder shall be in writing and shall be hand delivered or delivered via next day delivery, (a) if to the Employee, to such address as the Employee, or any of the Employee's successors or assigns, shall have furnished to the Company in writing or (b) if to the Company, to such address as the Company shall have furnished to the Employee or the Employee's successors or assignees in writing. Notices via next day delivery will be effective three (3) business days after delivery to the delivery firm, charges prepaid.

9.5 **Delays or Omissions.** No delay or omission to exercise any right, power or remedy accruing to the Employee, upon any breach or default of Company under this Agreement, shall impair any such right, power or remedy of the Employee, nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under the Agreement, or by law or otherwise afforded to any holder shall be cumulative and not alternative.

9.6 **Expenses.** The Company and the Employee shall bear their own expenses and legal fees incurred on their behalf with respect to this Agreement and the transactions contemplated hereby.

9.7 **Counterparts.** This Agreement may be executed in any number of counterparts, all of which together shall constitute one instrument.

9.8 **Severability.** In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to

be illegal, unenforceable or void, this Agreement shall continue to full force and effect without said provision; provided that no such severability shall be effective if it materially changes the economic benefit of this Agreement to any party.

9.9 *Survival.* The representations, warranties, covenants and agreements made herein and contemplated hereby shall survive and investigation made by any party hereto and the closing of the transactions contemplated hereby.

9.10 *Arbitration.* Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration before one (1) arbitrator, in Santa Barbara, California, administered by the American Arbitration Association under its Employment Dispute Resolution Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Unless otherwise provided for by law, the Company and the Employee shall each pay half of the costs and expenses of such arbitration.

EMPLOYEE HAS READ AND UNDERSTANDS THIS SECTION, WHICH PROVIDES FOR ARBITRATION. EMPLOYEE UNDERSTANDS THAT BY SIGNING THIS AGREEMENT, EMPLOYEE AGREES TO SUBMIT ANY CLAIMS ARISING OUT OF, OR RELATING TO, OR IN CONNECTION WITH THIS AGREEMENT, OR THE INTERPRETATION, VALIDITY, CONSTRUCTION, PERFORMANCE, BREACH OR TERMINATION OF THIS AGREEMENT TO BINDING ARBITRATION, AND THAT THIS ARBITRATION CLAUSE CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHT TO A JURY TRIAL AND RELATES TO THE RESOLUTION OF ALL DISPUTES RELATING TO ALL ASPECTS OF THIS AGREEMENT.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

QAD INC., a Delaware corporation

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

Name:  
Title:

EMPLOYEE:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Name

QuickLinks

[Exhibit \(d\)\(v\)](#)

[FORM OF EMPLOYEE RETENTION AGREEMENT](#)

## AGREEMENT TO ESCROW FUNDS

This Agreement to Escrow Funds (this "Agreement") is entered into as of July 29, 2002, by QAD Inc. ("QAD") and Kathleen M. Fisher, aka Kathleen M. Griggs ("Fisher").

### RECITALS

A. Fisher and QAD have executed that certain Offer of Employment (the "Offer Letter") dated March 6, 2000. Pursuant to the Offer Letter, QAD agreed to provide Fisher with a \$255,000 forgivable loan. In satisfaction of such obligation, QAD loaned Fisher \$255,000 and Fisher executed that certain Promissory Note dated April 11, 2000, in the original principal amount of \$255,000 payable to QAD (the "Promissory Note"). The Promissory Note is secured by a Deed of Trust (the "Deed of Trust") encumbering certain real property located at 6031 Bridgeview Drive, Ventura, California 93003 (the "Property").

B. Fisher has entered into an agreement to sell the Property to an unrelated third party purchaser and desires that QAD execute such documents as are necessary to reconvey the lien of the Deed of Trust upon payment of the sum of \$127,500, which is the remaining principal amount owed under the Promissory Note.

C. In satisfaction of QAD's obligation to provide a forgivable loan pursuant to the Offer Letter, the parties desire that QAD incur an obligation to pay Fisher compensation in the amount of \$127,500 (the "Additional Compensation") in accordance with the terms and conditions herein and contingent on Fisher's continuing employment with QAD.

D. The parties desire that QAD deposit \$127,500 as security for the Additional Compensation in an escrow account at First Bank & Trust, Inc ("Escrow Holder"), 550 Montgomery Street, San Francisco, CA, 94111 ("Escrow Account"), to be held in the name of QAD and Fisher and that the terms and conditions of the Escrow Account shall be as provided in this Agreement. The deposit shall be made via a wire transfer in the amount of \$127,500 from Equity Title Company to Escrow Holder.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties do hereby agree as follows:

1. **Escrow Agreement.** QAD and Fisher shall enter into an escrow agreement with the Escrow Holder substantially in the form of the Letter of Escrow Instructions attached hereto as *Exhibit A*. The costs of establishment and maintenance of the Escrow Account shall be shared equally by QAD and Fisher.

2. **Additional Compensation.** The following terms and conditions shall govern the release of the Additional Compensation:

A. The Additional Compensation held in the Escrow Account shall be invested in a Business Advantage Money Market account.

B. The Additional Compensation and accrued interest shall be released from the Escrow Account as follows:

1. If Fisher continues to be employed by QAD as of April 14, 2003, Additional Compensation in the amount of \$63,750, along with all accrued interest thereon, shall be released to Fisher.
2. If Fisher continues to be employed by QAD as of April 14, 2004, the \$63,750 remaining balance of Additional Compensation, along with all accrued interest thereon, shall be released to Fisher.
3. If, prior to April 14, 2004, Fisher's employment with QAD is terminated by QAD with cause or Fisher voluntarily terminates Fisher's employment with QAD, the

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Additional Compensation remaining unpaid at that time shall be released to QAD and accrued interest thereon, if any, shall be released to Fisher.

4. If, prior to April 14, 2004, Fisher's employment with QAD terminates because (i) of Fisher's death, (ii) QAD terminates Fisher without cause, as defined under the QAD Employee Retention Agreement between QAD and Fisher ("Retention Agreement"), (iii) Fisher becomes disabled in the profession in which Fisher works, (iv) there is a change in control of QAD, as defined under the Retention Agreement, (v) if Fisher's employment with QAD is constructively terminated, as defined under the Retention Agreement or (vi) QAD's headquarters where Fisher is situated move more than twenty-five (25) miles from the current location, then the balance of Additional Compensation, including accrued interest thereon, shall be released to Fisher.

3. **Income Taxes/Gross-Up.** QAD will consider any Additional Compensation released to Fisher to be taxable income to Fisher. Any such release will be reported as taxable compensation to Fisher by QAD at the time of forgiveness. However, such taxable compensation will be grossed up for tax purposes using QAD's standard gross-up provisions. QAD confirms that any income tax due on any imputed interest charged by QAD on the Additional Compensation shall be payable by QAD and will be grossed up for tax purposes using QAD's standard gross-up provisions.

4. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

5. **Attorneys' Fees.** If any litigation is commenced among any of the parties hereto, the prevailing party or parties shall be entitled, in addition to such other relief as may be granted, to a reasonable sum for their attorneys' fees in that litigation. The amount of this sum shall be determined either by the court or in a separate action brought for that purpose.

6. **Miscellaneous.** This Agreement may be executed in two or more counterparts, each of which shall be a duplicate original and all of which shall constitute one and the same agreement. No amendment or modification of this Agreement shall be effective unless in writing and executed by each of the parties hereto. This Agreement shall inure to the benefit of and be binding upon the parties and their respective successors.

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

QAD Inc.,  
a California corporation

By:

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Roland Desilets, Secretary

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Kathleen M. Fisher

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**EXHIBIT A**  
**Form of Escrow Agreement**

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QuickLinks

[Exhibit \(d\)\(vi\)](#)

[AGREEMENT TO ESCROW FUNDS](#)

**SECOND AMENDMENT  
TO LOAN AND SECURITY AGREEMENT**

THIS SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT (this "Second Amendment") is made as of March 18, 2003, by and between **FOOTHILL CAPITAL CORPORATION**, a California corporation ("Lender"), and **QAD INC.**, a Delaware corporation ("Borrower"), with reference to the following facts:

A. The parties hereto have entered into that certain Loan and Security Agreement, dated as of September 8, 2000, as amended (as amended the "Loan Agreement"), and other Loan Documents. (Capitalized terms, which are used herein but not defined herein, shall have the meanings ascribed to them in the Loan Agreement.)

B. The parties wish to make certain modifications to the Loan Documents, all on the terms and conditions set forth herein.

NOW, THEREFORE, the parties hereto agree as follows:

1. *Amendments to Loan Agreement.* Effective as of the Effective Date (as defined below), the Loan Agreement shall be amended as follows:

1.1 The following is added to *Section 1.1* of the Loan Agreement:

"Effective Cash Position" means, as of any date of determination, the sum of (a) unrestricted cash and Cash Equivalents in Borrower's Securities Account, subject to a Control Agreement, as required by *Section 7.19*, and (b) Excess Availability."

1.2 The following is added as a new *Section 7.20(a)(v)* to the Loan Agreement:

"(v) **Minimum Cash Coverage.** (i) As of the last day of each of Borrower's fiscal quarters, maintain an Effective Cash Position equal to no less than 120% of the outstanding principal balance of and accrued interest on the Term Loan; and (ii) at all other times, maintain an Effective Cash Position equal to no less than 85% of the outstanding principal balance of and accrued interest on the Term Loan."

1.3 The Compliance Certificate, the form of which is attached as *Exhibit C-1* to the First Amendment to Loan Documents, dated as of December 13, 2001, is replaced by *Exhibit C-1* hereto.

2. *Limited One-Time Consent.*

(a) Borrower seeks to repurchase no more than \$15,000,000 of its common Stock by no later than January 31, 2004 (the "Repurchase").

(b) *Section 7.11* of the Loan Agreement prohibits the repurchase by Borrower of any of Borrower's Stock.

(c) Borrower has requested Lender's consent to the Repurchase, and Lender is willing to consent to the Repurchase, provided that Borrower complies with the conditions precedent set forth in Section 3 of this Second Amendment (collectively, the "Conditions") no later than March 19, 2003, time being of the essence.

(d) Subject to the satisfaction of the Conditions, Lender hereby consents to the Repurchase; provided, however, that this consent is not a consent to any repurchase of Stock in any other instance or a waiver of any provision of the Loan Agreement, nor is it a consent to any other

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current or future transaction prohibited by the Loan Documents. Lender is not obligated to provide this consent.

3. *Conditions to Effectiveness.* The effectiveness of this Second Amendment is subject to the receipt by Lender of the following, and the date on which Lender receives all of the following shall be the "Effective Date:"

3.1 Counterparts of this Second Amendment, executed by each of the parties hereto; and

3.2 Borrower agrees to pay Lender all of Lender's attorneys' fees and costs as described in *Section 4.8* hereof.

4. *Miscellaneous.*

4.1 *Loan Documents Confirmed.* Except as expressly amended hereby, the Loan Agreement and the other Loan Documents shall remain unchanged and in full force and effect. This Second Amendment is hereby incorporated into the Loan Agreement.

4.2 *Choice of Law.* EXCEPT AS OTHERWISE EXPRESSLY PROVIDED, THIS SECOND AMENDMENT AND ALL OTHER DOCUMENTS BEING EXECUTED CONCURRENTLY HERewith SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES.

4.3 *Sole Parties.* This Second Amendment is made exclusively for the benefit of and solely for the protection of the parties hereto, and no other person or persons shall have the right to enforce the provisions hereof by action or legal proceedings or otherwise.

4.4 *Interpretation.* Whenever the context so requires, all words used in the singular will be construed to have been used in the plural, and vice versa, and each gender will include any other gender. The headings used in this Second Amendment are inserted solely for the convenience of reference and are not part of, nor intended to govern, limit or aid in the construction of, any term or provision hereof.

4.5 *Counterparts.* This Second Amendment may be executed in one or more counterparts, each of which shall be an original but all of which shall constitute one and the same instrument.

4.6 *Further Assurances.* From time to time, each party will execute and deliver in recordable form, if necessary, such further instruments and will take such other action as the other party reasonably may request in order to discharge and perform their obligations and agreements under this Second Amendment.

4.7 *Time of Essence.* Time is of the essence in this Second Amendment.

4.8 *Attorneys' Fees and Costs.* The Borrower agrees that all of Lender's attorneys' fees and costs in drafting and negotiating this Second Amendment are part of the Obligations and are payable on demand.

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IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the date first written above.

**FOOTHILL CAPITAL CORPORATION,**  
a California corporation

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

Title: John Nocita, Vice President

Date: March 19, 2003

**QAD INC.,**  
a Delaware corporation

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

Title: Kathleen M. Fisher, EVP and Chief Financial Officer

Date: March 19, 2003

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**EXHIBIT C-1**  
**Amended Compliance Certificate**

**FORM OF AMENDED COMPLIANCE CERTIFICATE**

[on Borrower's letterhead]

To: Foothill Capital Corporation  
2450 Colorado Avenue, Suite 3000 West  
Santa Monica, California 90404  
Attn: Business Finance Division Manager

Re: Compliance Certificate dated

Ladies and Gentlemen:

Reference is made to that certain Loan and Security Agreement, dated as of September 8, 2000, as amended (the "*Loan Agreement*")

between QAD Inc., a Delaware corporation ("*Borrower*") and Foothill Capital Corporation, a California corporation ("*Lender*"). Capitalized terms used in this Compliance Certificate have the meanings set forth in the Loan Agreement unless specifically defined herein.

Pursuant to *Section 6.3* of the Loan Agreement, the undersigned officer of Borrower hereby certifies that:

1. The financial information of Borrower furnished in *Schedule 1* attached hereto, has been prepared in accordance with GAAP (except for year-end adjustments and the lack of footnotes, in the case of financial statements delivered under *Section 6.3(a)* of the Loan Agreement) and fairly presents the financial condition of Borrower.

2. Such officer has reviewed the terms of the Loan Agreement and has made, or caused to be made under his/her supervision, a review in reasonable detail of the transactions and condition of Borrower during the accounting period covered by the financial statements delivered pursuant to *Section 6.3* of the Loan Agreement.

3. Such review has not disclosed the existence on and as of the date hereof, and the undersigned does not have knowledge of the existence as of the date hereof, of any event or condition that constitutes a Default or Event of Default, except for such conditions or events listed on *Schedule 2* attached hereto, specifying the nature and period of existence thereof and what action Borrower has taken, is taking, or proposes to take with respect thereto.

4. Borrower is in timely compliance with all representations, warranties, and covenants set forth in the Loan Agreement and the other Loan Documents, except as set forth on *Schedule 2* attached hereto. Without limiting the generality of the foregoing, Borrower is in compliance with the covenants contained in *Section 7.20* of the Loan Agreement as demonstrated on *Schedule 3* hereof.

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IN WITNESS WHEREOF, this Compliance Certificate is executed by the undersigned this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

QAD Inc.,  
a Delaware corporation  
as Borrower

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

Name: \_\_\_\_\_

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

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**SCHEDULE 1**

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**SCHEDULE 2**

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**SCHEDULE 3**

**1. Minimum EBITDA.**

Borrower's EBITDA for the \_\_\_\_\_ ending \_\_\_\_\_, \_\_\_\_\_ is \$\_\_\_\_\_, which amount **[is/is not]** greater than or equal to the amount set forth in Section 7.20(a)(i) of the Loan Agreement for the corresponding period.

**2. Minimum Tangible Net Worth.**

(a) The Tangible Net Worth of Borrower, as of the last day of the fiscal quarter ending \_\_\_\_\_, \_\_\_\_\_, is \$\_\_\_\_\_, which amount **[is/is not]** greater than or equal to the amount set forth in Section 7.20(a)(ii) of the Loan Agreement for the corresponding period.

**3. Maximum Deferred Maintenance Revenue.**

The ratio of (A) consolidated Deferred Maintenance Revenue of Borrower and its Subsidiaries to (B) Borrower's and the Subsidiaries' consolidated Maintenance Revenue as of the fiscal quarter ended \_\_\_\_\_, is \_\_\_\_\_:1.0, which **[is/is not]** greater than or equal to the ratio set forth in Section 7.20(a)(iii) of the Loan Agreement for the corresponding period.

**4. Maximum Covered Revenues.**

(a) The Revenues of Borrower derived from software owned by Borrower, for which copyright registrations have been made with the Copyright Office and for which copies thereof have been delivered to Lender, as of the last day of the fiscal quarter ending \_\_\_\_\_, is calculated as follows:

- (i) Borrower's License Revenues derived from software owned by Borrower: \$ \_\_\_\_\_
- (ii) Borrower's License Revenues derived from software owned by Borrower, for which copyright registrations have been made with the Copyright Office and for which copies thereof have been delivered to Lender: \$ \_\_\_\_\_
- (iii) Item (ii) divided by Item (i) ("Ratio") \_\_\_\_\_ %

(b) The Ratio set forth above [is/is not] greater than or equal to the percentage set forth in Section 7.20(a)(iv) of the Loan Agreement.

**5. Minimum Cash Coverage.**

(a) As of \_\_\_\_\_, 20\_\_\_\_\_:

- (i) the outstanding principal of the Term Loan is \$ \_\_\_\_\_.
- (ii) Accrued interest on the Term Loan is \$ \_\_\_\_\_.
- (iii) The sum of (i) and (ii) is \$ \_\_\_\_\_.
- (iv) The aggregate unrestricted cash and Cash Equivalents in the Borrower's Security Account, subject to a Control Agreement, is \$ \_\_\_\_\_.
- (v) Excess Availability is \$ \_\_\_\_\_.
- (vi) The sum of (iv) and (v) is \$ \_\_\_\_\_.

(b) The amount set forth in (a)(vi) above [is/is not] greater than [85%/120%] of the amount set forth in (a)(iii) above.

**6. Maximum Capital Expenditures.**

(a) The aggregate amount of capital expenditures made or committed to be made to date in the current fiscal year is \$\_\_\_\_\_.

(b) The aggregate amount set forth above [is/is not] less than or equal to the amount set forth in Section 7.20(b)(i) of the Loan Agreement for the corresponding period.

**QuickLinks**

[Exhibit \(d\)\(vii\)](#)

[SECOND AMENDMENT TO LOAN AND SECURITY AGREEMENT](#)

[EXHIBIT C-1 Amended Compliance Certificate](#)

[FORM OF AMENDED COMPLIANCE CERTIFICATE](#)

[SCHEDULE 1](#)

[SCHEDULE 2](#)

[SCHEDULE 3](#)