UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-K

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JANUARY 31, 2000
OR

/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER: 0-22823

QAD INC.

(Exact name of registrant as specified in its charter)

DELAWARE	77-0105228
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6450 VIA REAL
CARPINTERIA, CALIFORNIA 93013
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (805) 684-6614

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.001 par value

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.YES /X/ NO / /

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price for the registrant's common stock in the Nasdaq National Market on April 10, 2000, was approximately $270,205,772. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purposes. The number of outstanding shares of the registrant's common stock as of the

close of business on April 10, 2000 was 33,256,095.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12 and 13 of Part III incorporate information by reference from the definitive proxy statement for the registrant's Annual Meeting of Stockholders to be held on June 8, 2000.

QAD INC.
FISCAL YEAR 2000 FORM 10-K ANNUAL REPORT
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FORWARD LOOKING STATEMENT

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like "believe," "anticipate," "expect" and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Factors That May Affect Future Results and Market Price of Stock." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. QAD undertakes no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors described in other documents QAD files from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal year 2001.

PART I

ITEM 1. BUSINESS

Historically, QAD has been recognized as a provider of supply chain enabled ERP (enterprise resource planning) software. However, with the advent of e-business, we are expanding our products and services to meet the demands of today's market. Our e-business solutions build on our core competency in multisite operations by addressing order flow management requirements of the Internet age. Our products have the flexibility and scalability that companies need to quickly and successfully adapt to growth, organizational change, technological advances, market shifts and other challenges. Our service practice also provides a mix of expertise and resources to help our customers make a successful transformation to e-business.

Our applications address both internally and externally focused business processes required to conduct business. Our MFG/PRO software is a suite of enterprise applications--including manufacturing, distribution, finance and customer service--specifically designed for deployment at the plant/site level. QAD APS (advanced planning and scheduling) software, formerly a part of the QAD On/Q suite of applications, enables companies to improve planning processes and asset utilization through supply chain optimization. QAD eQ software, also formerly a part of QAD On/Q, allows businesses to effectively manage B2B (business-to-business) collaborative relationships with customers, suppliers, and digital communities using the most advanced Internet technologies.

Our services comprise a set of consulting practices focused on bringing value-added services to our customers by a common set of policies and processes within a global infrastructure. Our practices include:

- support services, which deliver solution-centered online support

- learning services, which empower our customers through training and education

- technical services, which offer technical expertise and performance tuning

- implementation services, which provide project management, application consulting and quality assurance

In addition, our customers enjoy the benefit of an extensive network of QAD-certified alliances designed to extend our reach.

Our targeted industries include the automotive, consumer products, electronics/industrial, food and beverage and medical sectors. As of January 31, 2000, QAD software was licensed at more than 4,800 sites in more than 80 countries.

Our customers include:

AT&T Wireless
Colgate-Palmolive
Eaton/Aeroquip
Firmenich
Ford Motor Company
Framatome Connectors International
Genzyme
Johnson Controls
Johnson & Johnson
Kraft
Lear Seating
Lucent Technologies
Matsushita
Nestle
Philips Electronics
St. Jude Medical
Schlumberger
Stryker
TaylorMade Golf
Unilever

"QAD," "QAD APS" and "QAD eQ" are trademarks and "MFG/PRO" is a registered trademark of QAD Inc. This Annual Report on Form 10-K also contains trademarks and registered trademarks of persons and companies other than QAD.

INDUSTRY BACKGROUND

In recent years, businesses have been subject to increasing global competition, resulting in pressure to lower production costs, improve product performance and quality, increase responsiveness to customers and shorten product development and delivery cycles. In addition, globalization has greatly increased the scope and complexity of multinational manufacturing organizations.

The Internet is impacting competition and the structure of supply chains, driving costs further down and increasing the demand for customer-focused ways of doing business. In order to respond, companies need to rethink their business models and implement solutions that can keep up with the increased rate of change. In our view, e-business goes beyond the Internet and includes all electronic buying, selling and collaboration, supported by a foundation of enterprise applications. We believe e-business impacts each segment of the enterprise software market--corporate, plant/operations and supply chain.

Traditional ERP software enables the integration and management of critical data within an enterprise and supports internal business processes such as sales order management, procurement, inventory management, manufacturing control, project management, distribution and finance. Complementary to that, traditional supply chain management software, such as APS, enables companies to make decisions related to the optimization of supply chains by using data from traditional ERP systems.

Today, companies are looking for e-business solutions that help manage the supply chain by enhancing the flow of information to and from customers, suppliers and other business partners outside the enterprise. These solutions

rely on the Internet as a vehicle for achieving collaboration. In addition, companies need to replace legacy plant/operations-level solutions, including those in place because of corporate mandated Y2K lockdowns.

CORPORATE ENTERPRISE SOLUTIONS. Corporate enterprise solutions are primarily focused on the consolidated information needs of Fortune 1000 companies. Leading vendors include Oracle, SAP and Peoplesoft. The broad scope, significant cost of ownership, and limited flexibility of traditional corporate enterprise solutions limits their effectiveness in addressing the needs of individual plants or divisions. The rollout of corporate ERP solutions into the plant/operations level of organizations has proven to be difficult, primarily because of the cost of ownership and the need for flexibility and control at the level of the individual plants.

PLANT/OPERATIONS-LEVEL SOLUTIONS. Plant/operations-level solutions are primarily focused on the specific needs of midrange manufacturing plants and distribution sites or the operations level of global companies. Leading vendors of these solutions include QAD, SAP, J.D. Edwards and Symix Systems. Users of plant-level solutions are looking for highly flexible, full-featured, industry-specific solutions that can be implemented globally, rapidly and cost-effectively and that easily can be made part of the company's

overall e-business infrastructure. Because of the complexity of manufacturing environments, e-business startups often are unable to deliver plant/operations-level solutions.

SUPPLY CHAIN MANAGEMENT SOLUTIONS. Supply chain management applications have expanded to include collaborative functions. Traditional providers of supply chain optimization software typically offer decision support applications that rely on transaction systems such as ERP to hold transaction information. The challenge these vendors face is twofold: a decision support application is not designed for high volume transaction processing and it is not collaborative. New Internet-based collaborative applications reach outside the four walls of the enterprise to enable supply chain partners to interact directly with the manufacturer's transaction system. This new level of supply chain integration results in significant reduction in the cost of operations.

THE QAD STRATEGY

Our objective is to become the leading provider of e-business solutions for midrange and multinational manufacturing and distribution companies within our targeted markets. Our strategy is to expand our leadership position at the plant and operations level by providing Internet-based applications that not only run internal processes but extend beyond the walls of the enterprise to manage relationships with customers, suppliers and other business partners. The key elements of our strategy for achieving our objective include the following:

LEVERAGE BEST-IN-CLASS MANUFACTURING APPLICATIONS. As of January 31, 2000, MFG/PRO software was licensed at more than 4,800 sites in over 80 countries. We believe that this is a substantial customer base from which we can leverage future e-business sales. Our plan is to migrate our current installed base of MFG/PRO software customers to our new Internet-based version, MFG/PRO eB and further penetrate the market by gaining new customers within our targeted verticals. In addition, we plan to accelerate the adoption cycle for our QAD eQ, B2B collaborative solution, not only to our existing customers, but to new customers as well.

BECOME THE B2B COLLABORATIVE APPLICATIONS LEADER. We believe that supply chain management within and outside of the enterprise represents one of the greatest current opportunities for companies to reduce costs and enhance customer relationships. We further believe that, in the age of the Internet, supply chains are becoming more complex and collaborative and are rapidly evolving into vast global value networks that will require a new class of software. Internet-based QAD eQ provides intelligent unattended B2B transaction processing across multi-enterprise supply chains and is designed to help businesses effectively collaborate across their supply chains.

LEVERAGE GLOBAL NETWORK OF ALLIANCES. We leverage the expertise of distribution, services and technology partners to meet the diverse needs of our customers. We augment our direct sales organization with a global network of approximately 30 distributors and numerous services organizations that offer consulting and implementation services to expand our reach. We plan to leverage our network of distributors and services alliances to further penetrate our

vertical markets. In addition, we have entered into a number of joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with our software to deliver a more comprehensive solution for our targeted vertical markets.

MAINTAIN TECHNOLOGY LEADERSHIP. Our technology strategy is focused on delivering collaboration through open applications that comply with Internet security standards. We believe that interoperability with real-time messaging will remain an important requirement of software applications as organizations seek integrated front-end and back-office solutions comprised of best-in-class applications. We also are committed to delivering quality Internet-based applications that utilize the most advanced technologies such as Java and XML to meet the demand of today's economy.

THE QAD SOLUTION

In the Internet-driven economy, manufacturing and distribution companies are becoming increasingly customer focused. New customer-driven business models require comprehensive end-to-end e-business solutions that manage all areas of the enterprise--including corporate, plant/operations and collaborative supply chain. Our unique approach to e-business provides companies with an e-business framework built on our established enterprise backbone and integrated with collaborative applications. Because of our open systems architecture, our applications interoperate with legacy systems and other leading applications to give companies best-in-class functionality. The result is a powerful e-business solution that leverages a company's existing IT (information technology) investment, supports their current business model and quickly adapts to new market conditions. We meet customer requirements for e-business in our vertical markets by delivering:

GLOBAL OPERATIONS FOR MIDRANGE AND MULTINATIONAL COMPANIES. Our reputation for best-in-class manufacturing is supported by a proven track record for successfully deploying comprehensive enterprise solutions in more than 80 countries. Our applications are available in more than 20 languages, incorporate multicurrency capabilities and are tailored to local financial practices and requirements in many of our major markets. Working in concert with our alliances, our services ensure that customers receive the right combination of software and services--including our award-winning customer support available through traditional call centers or through our solution-centered online support site accessible 24 hours a day, seven days a week.

EXPERTISE AND FUNCTIONALITY FOR KEY VERTICAL MARKETS. Our focus on key vertical markets helped us to achieve leadership positions in the automotive, consumer products, electronics/industrial, food and beverage and medical industries. Our substantial expertise in these markets, together with our strategy of developing Internet-based applications that address industry-specific needs, provide our customers with a competitive advantage. For example, our solutions include features that facilitate:

- US FDA (Food and Drug Administration) compliance and validation for the medical industry

- advanced pricing and promotion management for the consumer products industry

- customer/supplier scheduling via electronic data interchange (EDI) for the automotive industry

- a product change control module for the electronics /industrial industry

FLEXIBLE, ADAPTABLE AND EASY TO USE. Our industry-specific e-business solutions give manufacturing and distribution companies the flexibility to modify their software and the ability to adapt their business models to meet dynamic market changes. Because we develop industry-specific features, many through customer-driven development groups, customization of the software is minimized, which means our customers are able to access the functionality they need the day their system goes live. The architecture of our software, together with our focus and expertise in our key vertical markets, enables a rapid time-to-benefit.

CONNECTIVITY FOR COLLABORATION. We understand that businesses want to connect their people, products, partners, suppliers, and customers to create a highly collaborative business model that helps them leverage relationships and

define the rules of their marketplace. Because of our open system approach, we work closely with the OAGIS (Open Applications Group Integration Specification) consortium and use the most advanced Internet technologies, such as XML and Java, to deliver truly open, interoperable e-business solutions. We believe that a collaborative supply chain model improves a company's ability to manage and service a large volume of personalized and organizational relationships and gives them the power to conduct intelligent unattended B2B order management.

INTERNET EXCHANGES. Internet exchanges match up supply and demand transactions as they come in. QAD eQ collaborative applications are based on the concept of Internet exchanges and give businesses the ability to monitor customer/supplier transactions and optimize their supply chains dynamically.

GLOBAL SERVICE AND SUPPORT. We believe that a high level of global service and support is a critical component of our e-business solutions. Last year we responded to customer requests for more direct involvement in their system solutions by establishing QAD services. Working in concert with a global network of QAD-certified service alliance partners, QAD services ensure that QAD customers receive the right combination of software and services. QAD services include:

- support services, which deliver solution-centered online support

- learning services, which empower our customers through training and education

- technical services, which offer technical expertise and performance tuning

- implementation services, which provide project management, application consulting and quality assurance

PRODUCTS AND SERVICES

We target our products and services to manufacturing and distribution companies within the automotive, consumer products, electronics/industrial, food and beverage and medical industries. Our products and services address the needs of midrange and large multinational companies.

- Our MFG/PRO software provides companies with an integrated enterprise solution within an open systems environment.

- QAD Advanced Planning and Scheduling (APS) software enables companies to optimize their supply chains.

- QAD eQ software is designed to give companies an Internet-based B2B (business-to-business) order management solution that extends the company's enterprise application to its business partners to enable collaboration on the execution of transactions.

MFG/PRO

A foundation for e-business, as well as a best-in-class manufacturing solution, MFG/PRO software includes an integrated set of manufacturing, distribution, financial and customer service applications designed to address the needs of customers in our targeted vertical markets. Some of these applications include unique, industry-specific features that were developed through our customer development groups. Because of our open systems approach, MFG/PRO interoperates with legacy systems and other leading enterprise applications to give companies best-in-class functionality.

MFG/PRO software supports multiple currencies and global tax management and is tailored to financial practices and requirements in many of our major geographic markets. MFG/PRO software supports more than 20 languages, including most major European languages, Japanese, Chinese and Korean.

MFG/PRO software operates in both host and distributed, client/server and browser-based computing environments and supports single or multiple sites, as well as multiple production and operational processes. These capabilities enable midrange and large multinational manufacturers to manage multiple hybrid production methods within a single organization or a single production site and they also provide the flexibility to adapt to additional sites and processes as an organization's business evolves.

Accessible through a Web browser, MFG/PRO includes an easily deployable Java platform interface that minimizes internal system traffic and provides low-cost system access over a WAN (wide area network).

MFG/PRO software includes several applications that enable our customers to open up their business system infrastructures for e-business. These applications, including Q/LinQ and EDI eCommerce, provide interoperability with other applications both inside and outside the enterprise. These software applications are often delivered in conjunction with QAD services. Our sales have generally consisted of MFG/PRO software, services and related maintenance.

QAD ADVANCED PLANNING AND SCHEDULING (APS)

QAD APS products include Supply Chain Optimizer, Factory Optimizer and Demand Planner. In 1999, we developed integrations to these software products to extend and leverage the capabilities of our enterprise application, MFG/PRO. QAD Advanced Planning and Scheduling (APS) was formerly a part of QAD On/Q.

Our Supply Chain Optimizer enables the enterprise to synchronize global purchasing, manufacturing, product flow and distribution while adhering to the strategic corporate planning objectives. It is designed to achieve company objectives through dynamic and simultaneous consideration of material and capacity cost constraints.

Our Factory Optimizer enables manufacturing managers and planners to optimize manufacturing plans, simultaneously considering capacity, material and customer constraints.

Our Demand Planner enables planners to collaborate on producing both demand and supply plans based on historical demand patterns, causal factors, marketing plans and other enterprise knowledge. Through a thin-client Java UI (user interface), it supports collaborative planning within the enterprise and with external suppliers and customers.

We have developed application programming interfaces (APIs) between MFG/PRO and QAD APS product lines. As a result we provide our customers a single source for an integrated solution of best-in-class manufacturing and supply chain optimization.

QAD EQ

QAD eQ, formerly a part of QAD On/Q, is a B2B (business-to-business), Internet order management application. QAD eQ supports a manufacturer's e-business transformation through an innovative combination of customer and supplier relationship management functions and Internet order management capabilities. Unlike traditional ERP systems, QAD eQ is externally focused and built for the Internet. QAD eQ can integrate with enterprise systems (including MFG/PRO) through an open message-based architecture using the OAGIS (Open Applications Group Integration Specification) model. QAD eQ is built in Java using XML and designed to meet the security requirements of Internet transactions.

QAD eQ allows a company to model its supply chains and the rules and relationships that describe the preferences of its trading partners. QAD eQ uses this relationship model to decide how a particular incoming order should be handled. Supply chains change frequently, so the relationship management function is flexible and easily adaptable to handle dynamic environments.

We believe that QAD eQ is currently unique in the industry due to the following:

- relationship management

- internet exchanges

- integration with enterprise solutions, including MFG/PRO

These characteristics give manufacturers the ability to take an order--unattended, at a single place, using one of many electronic conduits--and deliver the order intelligently to suppliers inside and outside of the enterprise.

We believe that the combination of QAD eQ, MFG/PRO and QAD APS is a well positioned, end-to-end e-business solution that gives our customers a competitive advantage.

NEW PRODUCT INITIATIVES

INTRODUCE PREPACKAGED E-BUSINESS SOLUTIONS FOR THE MIDMARKET. PowerSystem is a prepackaged solution jointly offered with IBM and Cisco Systems, that combines QAD's industry-specific enterprise software with IBM Nefinity and RS/6000 servers and Cisco networking. The result is a complete manufacturing and distribution system well suited to the needs of midrange companies. Because it is pre-configured and pre-tested, PowerSystem, can be implemented very quickly and at low cost. To support e-business requirements, a new release of the product, PowerSystem eBusiness, will integrate QAD and IBM technology to provide a browser-based storefront shopping cart to support B2B and B2C (business-to-consumer) transactions.

CREATE AND ADOPT NEW SOLUTION PRICING MODELS. QAD intends to develop alternative pricing models to reflect the changes in the way companies purchase enterprise systems. To better serve companies looking to outsource their IT systems, most notably small to mid-size companies, we are developing plans to offer our Internet-based applications through application service providers (ASPs), whose transaction-based fees offer an attractive alternative for companies not wanting to invest heavily in an IT infrastructure. In addition, we are developing plans to make our Internet-based applications available for trading exchanges.

QAD PRODUCT ALLIANCES

We have a number of ongoing business alliances to extend the functionality of QAD software through the addition of integrated best-in-class applications. We also have entered into a number of joint development agreements with third-party software developers who provide functionality that has been embedded into or integrated with QAD software to deliver more complete solutions for our targeted vertical markets. Our partners include Adexa, Inc. and Progress Software Corporation.

QAD SERVICES

Twenty-two percent of our revenue in fiscal 2000 was derived from services. Our service business combines the efforts of our various practices with the extended service capabilities we gained through distributor acquisitions. In 1999, QAD services added a broad range of practices to support and enhance our product lines and to help our customers make a smooth transition to e-business. These services include:

- support services, which deliver solution-centered online support

- learning services, which empower our customers through training and education

- technical services, which offer technical expertise and performance tuning

- implementation services, which provide project management, application consulting and quality assurance

TECHNOLOGY

We have developed MFG/PRO software with a commercially available, fourth-generation language and tool set marketed by Progress Software that works with relational databases provided by Oracle and Progress. MFG/PRO software is now taking advantage of advances in Progress software that open up this

fourth-generation language to access by Sun's Java language. MFG/PRO 9.0 features an Internet-enabled Java user interface and an open architecture called QAD/Connects. This provides the following customer benefits:

- improved connectivity with existing software applications

- ability to deploy and integrate new best-of-class software applications across the enterprise

- important connectivity with the Internet

- secure e-business transactions with trading partners

In addition to supporting the MFG/PRO traditional user, who works inside the manufacturing enterprise, MFG/PRO 9.0 supports secure access by trading partners, casual Internet shoppers and mobile users through alliance partner products.

We are continuing to convert our MFG/PRO software modules to Java-interfaced Progress components. We believe this conversion effort will provide value to customers by making MFG/PRO accessible to new types of users and applications.

MFG/PRO software also operates under the Windows NT and major Unix operating systems.

QAD eQ is based on technology supplied by Enterprise Engines, Inc., EEI, (acquired by QAD in late 1999) and from Gemstone Systems, Inc. Currently IBM is providing technology and assistance to port QAD eQ to some of IBM's technology platforms, including IBM's SanFrancisco platform.

RESEARCH AND DEVELOPMENT

MFG/PRO was first introduced in 1986, and we have subsequently released a number of product versions and enhancements. In fiscal 2001, we plan to release MFG/PRO eB. Our principal research and development staff, which is augmented by third-party development resources, is focused on continuing updates and enhancements to our MFG/PRO software, as well as the continual migration of MFG/PRO software to Java-interfaced Progress components and to a Java user interface. We believe that Internet capability for our products will be important to the future success of our ERP and supply chain products. Accordingly, we have developed and will continue to develop Internet-enabled versions of our products through in-house and third-party development.

We also maintain a separate advanced technology development organization specifically focused on developing our QAD eQ (formerly a part of On/Q) e-business solutions. In late 1999, we acquired the remaining equity in Enterprise Engines, Inc., a firm that had been assisting in the development of logistics software and whose technologies are used in QAD eQ. During fiscal year ended 2000, we delivered the initial release of QAD eQ, which is integrated with Internet-enabled MFG/PRO, also introduced last year.

As of January 31, 2000, approximately 200 research and development personnel were involved in the development of MFG/PRO, QAD eQ and related third-party product APIs. Our research and development expenses totaled $34.1 million, $48.3 million and $29.3 million in fiscal 2000, 1999 and 1998, respectively.

SALES AND MARKETING

We sell and support our products and services through direct and indirect sales organizations located throughout the world.

Our indirect sales channel consists of approximately 30 distributors worldwide. We do not grant exclusive rights to any of our distributors. Our distributors primarily sell independently to companies within their geographic territory but may also work in conjunction with our direct sales organization. In

addition, we leverage our relationships with implementation providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

In fiscal 2000, we realigned our sales force to strengthen the focus on our regions and our ability to deliver industry-specific solutions with localizations within those regions. The distributor acquisitions we completed in fiscal years 1999 and 2000 gave us significant local presence in many countries that previously were handled on a global vertical basis. We leveraged the strength of the experienced management of these acquisitions by decentralizing the approach to sales and integrating them with our existing vertical sales

management. Within each territory, a focus on our vertical industries is maintained through marketing, local product development and sales training. To reassert our focus on profitability, the new sales operations assumed profit and loss responsibility for most functions in their territory.

Our sales and marketing strategy includes developing demand for our products by creating visibility for QAD and awareness of our software. We participate in major computer and vertical market industry trade shows, sponsor regional and worldwide user conferences and regional alliance conferences, and advertise in leading business and targeted industry publications.

THIRD-PARTY IMPLEMENTATION PROVIDERS

QAD has historically followed a strategy of utilizing third parties to provide the majority of implementation and customization services to our customers. In addition to providing consulting, implementation and training services, these third parties also generate sales leads for QAD and participate in the selling process. Strategic implementation and system integration partners include Deloitte & Touche, Origin and TRW. In most cases, our distributors also deliver consulting and integration services. QAD has put in place a certification program for both third-party software partners and services partners assuring the delivery of quality solutions to QAD customers.

All third-party service partners have separate, non-exclusive agreements with QAD. These agreements typically cover a defined territory for a specific period of time and are renewed (subject to review) upon the expiration of the defined time period. Partners generally are permitted to set their own rates for their services, and QAD does not typically collect a royalty fee from these partners for the services they perform.

We also enter into similar agreements with our distributor partners that grant these partners the nonexclusive right, within a specified territory, to market, license, deliver and support QAD products. In exchange for granting distributors these rights, we receive a negotiated royalty fee for each license of our software products. We also rely on third parties, primarily distributors, for the development of localizations or interfaces appropriate for the territory in which the distributors operate.

CUSTOMERS

We target the automotive, consumer products, electronics/industrial, food and beverage and medical sectors worldwide. As of January 31, 2000, QAD software was licensed at more than 4,800 sites in more than 80 countries. No one customer accounted for more than 10 percent of total revenue during any of our last three fiscal years. The following are among companies and/or subsidiaries of those companies that have each generated more than $400,000 in software license and maintenance revenue over the last three fiscal years:

AUTOMOTIVE

Caterpillar, Daewoo, Delphi, Eaton/Aeroquip, Ford Motor Company, Johnson Controls, Lear Corporation, Lucas Varity, Tower Automotive, Webasto

CONSUMER PRODUCTS

Avery Dennison, Avon, Colgate-Palmolive, Firmenich, Gillette, Hunt Corporation, Sherwin-Williams, TaylorMade Golf, Unilever

ELECTRONICS/INDUSTRIAL

AT&T Wireless, Black and Decker, Framatone Connectors International (FCI), Ingersoll-Rand, Philips, Sauer Sundstrand, Schlumberger, Sun Microsystems, Synnex, Xerox

FOOD AND BEVERAGE

Chef America, Coca-Cola, Gorton's, H.J. Heinz Company, Kraft-Jacob Suchard, Quaker Oats, Sun Maid, Rich Foods, United Biscuits, U.S. Sugar

MEDICAL

Alza, Arterial Vascular, C.R. Bard, Datexo, Genzyme, Johnson & Johnson, Maxxim Medical, Rexall Sundown, St. Jude Medical, Stryker, VISX

CUSTOMER SERVICE AND SUPPORT

In the age of e-business, high levels of customer care are essential to success. Working in concert with a global network of alliance partners, QAD provides superior customer care worldwide. Our services business combines:

- support service, which deliver solution-centered online support

- learning services, which empower our customers through training and education

- technical services, which offer technical expertise and performance tuning

- implementation services, which provide project management, application consulting and quality assurance

Our solution-centered support provides online access to information and customer support seven days a week, 24 hours a day. Our solution-centered support databases contain a wide variety of product information, customer support functionality, answers to frequently asked questions and a search-enabled online knowledge base.

On a fee basis, we also offer a comprehensive education and training program to our customers, end-users and implementation providers. Classes are offered through in-house facilities at QAD offices in various locations, as well as through on-site training services at customer locations. We also assist implementation providers and customers in developing their own in-house support centers.

COMPETITION

The enterprise software market is highly competitive, rapidly changing and affected by new product introductions and other market activities of industry participants, including consolidations among industry participants and entry of new participants.

In the market for corporate enterprise and plant/operations level enterprise applications, QAD MFG/PRO currently competes with:

- vendors, such as Baan, J.D. Edwards and Symix, that market software focused on the specific needs of manufacturing plants and distribution sites of multinational manufacturing companies

- other large companies like Oracle and SAP, as well as other business application software vendors, targeting the market for plant/operations-level ERP solutions

- internal development efforts by corporate information technology departments

- companies offering standardized or customized products on mainframe and/or midrange computer systems

In the supply chain optimization market, we compete primarily with companies such as Manugistics, i2 Technologies and Webplan that have developed or are attempting to develop supply chain optimization software based on Advanced Planning and Scheduling technology that complements ERP solutions.

In the collaborative segment, various vendors from different backgrounds are attempting to stake out their territory. Segment borders move very rapidly and vendors are aggressively acquiring supporting applications to broaden their overall e-business offerings. Vendors are moving into the collaborative e-business space from the following backgrounds:

- traditional ERP vendors expanding their offerings into e-business

- traditional supply chain optimization vendors repositioning themselves

- startup companies in any of the following categories: electronic storefronts, online-procurement, auctions/reverse auctions, business intelligence

Because of their heritage and the relative immaturity of the market, each of the above categories of vendors is challenged to deliver an end-to-end solution for e-business.

QAD believes QAD eQ is well positioned to succeed in the collaborative segment for the following reasons:

- we have developed and delivered an integrated application suite, QAD eQ, based on a new and proven technology

- QAD eQ functionality is enriched by the depth of our experience with our vertical markets

- QAD eQ is backed by our global delivery capabilities

As the e-business solution market continues to develop, companies with significantly greater resources could attempt to increase their presence in these markets by acquiring or forming strategic alliances with our competitors or with our current or potential partners. The dynamic nature of the emerging e-business market space leads us to believe that numerous smaller but well-capitalized vendors are certain to emerge as strong competitors.

Increased competition in these markets is likely to result in price reductions, reduced operating margins and loss of market share, any one of which could adversely affect us. Many of our present or future competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition, and a larger installed base of customers than we do. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements. They may also be able to devote greater resources to the development, promotion and sale of their products. Although we believe we offer and will continue to offer products that are competitive, we can make no assurance that we will be able to compete successfully with existing or new competitors or that competition will not adversely affect us.

PROPRIETARY RIGHTS AND LICENSING

OUR SUCCESS IS DEPENDENT UPON OUR PROPRIETARY TECHNOLOGY AND OTHER INTELLECTUAL PROPERTY. We rely primarily on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect our

rights in our software and related materials and information. We enter into license agreements with each of our customers. Each of these license agreements provides for the non-exclusive license of QAD software. These licenses generally are perpetual and contain strict confidentiality and non-disclosure provisions, a limited warranty covering the QAD software and indemnification for the customer from infringement actions related to the QAD software.

The pricing policy under each license is based on a standard price list and may vary based on parameters such as the number of end-users, number of sites, number of modules, number of languages, the country in which the license is granted and level of ongoing support, training and services to be provided by QAD. We have no patents or pending patent applications.

To facilitate the customization required by most of our customers, we generally license our MFG/PRO software to end-users in both object code (machine-readable) and source code (human-readable) format. While this practice facilitates customization, making software available in source code also makes it easier for third parties to copy or modify our software for non-permitted purposes. Distributors or other persons may independently develop a modified version of our software. Our license agreements generally allow the use of our software solely by the customer for internal purposes without the right to sublicense or transfer the software to third parties.

We believe that these measures afford only limited protection. Despite our efforts, it may be possible for third parties to copy portions of our products or reverse engineer or obtain and use information that we regard as proprietary. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as the laws of the United States. Accordingly, there can be no assurance that we will be able to protect our proprietary software against unauthorized copying or use, which could adversely affect our competitive

position. Furthermore, there can be no assurance that our competitors will not independently develop technology similar to ours.

WE MAY BE FACED WITH OR NEED TO BRING INFRINGEMENT CLAIMS TO PROTECT OUR RIGHTS. We have in the past been subject to claims of intellectual property infringement and may increasingly be subject to these types of claims as the number of products and competitors in our targeted vertical markets grows and the functionality of products in other industry segments overlaps. Although we do not believe that any of our products infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not claim infringement by us with respect to current or future products. In addition, we periodically acquire intellectual property from third parties. In some instances this intellectual property is prepared on a work-for-hire or similar basis, and in some instances we license the intellectual property. We have in the past and expect to in the future to be party to disputes about ownership, license scope and royalty or fee terms with respect to intellectual property. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements, any of which could have an adverse effect upon us. We may also initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights, which could result in significant expense to us and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation were determined in our favor.

OUR INTELLECTUAL PROPERTY RIGHTS MAY BE SIGNIFICANTLY AFFECTED BY THIRD-PARTY RELATIONSHIPS AND ACTIONS. We have in the past and may in the future resell certain software, which we license from third parties. In addition, we have in the past and may in the future jointly develop software in which we will have co-ownership or cross-licensing rights. There can be no assurance that these third-party software arrangements and licenses will continue to be available to us on terms that: 1) provide us with the third-party software we require, 2) provide adequate functionality in our products, on terms that adequately protect QAD's proprietary rights, or 3) are commercially favorable to us. The loss of or inability to maintain or obtain any of these software licenses, including a loss as a result of a third-party infringement claim, could result in delays or reductions in product shipments until equivalent software, if any, could be identified, licensed and integrated.

WE MAY BE EXPOSED TO PRODUCT LIABILITY CLAIMS. While our license agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims, it is possible that the limitation of liability provisions may not be effective under the laws of some jurisdictions. Although we have not experienced any product liability claims to date, we may be subject to claims in the future. We have an errors and omissions insurance policy with a sublimit for Y2K related claims. However, this insurance may not continue to be available to us on commercially reasonable terms, or at all. A successful product liability or errors or omissions claim brought against us could have an adverse effect us. Moreover, defending a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel, either of which could have an adverse effect on us.

EMPLOYEES

As of January 31, 2000, we had approximately 1,550 full-time employees of which approximately 200 were in research and development, 700 were in support and services, 400 were in sales and marketing, and 250 were in administration. Most of our employees are not represented by collective bargaining agreements, with the exception of certain employees of our Netherlands and France subsidiaries who are represented by statutory Works Councils as required under the local laws. In addition, employees of our Brazilian subsidiary are represented by a collective bargaining agreement with the Data Processing Union. We believe that our employee relations are good.

Our success depends to a significant extent upon a limited number of key employees and other members of our senior management and we are experiencing attrition due to recruiting by Internet and other companies. We may not be successful in attracting and retaining these personnel, and the failure to attract and retain personnel could adversely effect us.

SEGMENT REPORTING

Segment financial information for fiscal years 2000, 1999 and 1998 is

included in footnote 10 of our financial statements included in this Annual Report under Item 14.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers. All ages are as of March 31, 2000.

NAME	AGE	POSITION(S)
Pamela M. Lopker.....	45	Chairman of the Board and President
Karl F. Lopker.....	48	Chief Executive Officer
Kathleen M. Fisher.....	45	Executive Vice President and Chief Financial Officer
Vincent P. Niedzielski.....	45	Executive Vice President, Research and Development
Barry R. Anderson.....	48	Executive Vice President, Administration and General Counsel
Donald F. Armagnac.....	53	Executive Vice President, Global Field Operations
Cheryl M. Slomann.....	35	Vice President, Corporate Controller and Chief Accounting Officer

PAMELA M. LOPKER founded QAD in 1979 and has been our Chairman of the Board and President since incorporation. Prior to founding QAD, Ms. Lopker served as Senior Systems Analyst for Comtek Research from 1977 to 1979. Ms. Lopker is certified in Production and Inventory Management by the American Production and Inventory Control Society. Ms. Lopker earned a Bachelor of Arts degree in Mathematics from the University of California at Santa Barbara. Ms. Lopker is married to Karl F. Lopker.

KARL F. LOPKER has served as Director and Chief Executive Officer since joining QAD in 1981. Mr. Lopker also serves as QAD's Assistant Treasurer. Mr. Lopker was founder and President of Deckers

Outdoor Corporation from 1973 to 1981, where he currently serves as a Director. Mr. Lopker is certified in Production and Inventory Management at the Fellow level by the American Production and Inventory Control Society. Mr. Lopker studied Electrical Engineering and Computer Science at the University of California at Santa Barbara. Mr. Lopker is married to Pamela M. Lopker.

KATHLEEN M. FISHER is Executive Vice President and Chief Financial Officer, (CFO). She joined QAD in March 2000. Prior to joining QAD, Ms. Fisher served as the financial executive of Adept Technology, an automation software and hardware manufacturer, in San Jose, California. She has also served as CFO for Inprise Corporation and Softbank, Inc. Ms. Fisher received a Bachelor of Science degree in Business Administration from the University of Redlands and a Master of Business Administration degree from the University of Southern California in Los Angeles.

VINCENT P. NIEDZIELSKI is Executive Vice President, Development. He joined QAD in April 1996. Prior to joining QAD, Mr. Niedzielski served as Vice President, Production and Development at Candle Corporation from 1984 to 1996. Mr. Niedzielski holds a Bachelor of Science degree in Mathematics and Computer Science from the University of Scranton.

BARRY R. ANDERSON is Executive Vice President, Administration and General Counsel. He joined QAD in April 1997 as Executive Vice President, Administration and was named General Counsel in April 2000. Prior to joining QAD, Mr. Anderson was Chief Administrative Officer at the Bank South in Atlanta, Georgia. His previous experience also includes 10 years with Lanier Worldwide as Vice President, Human Resources, plus experience with ARAMCO (Arabian American Oil Company), Lockheed and Pan Am. Mr. Anderson received a Bachelor of Science degree in Business Management from Florida State University and a Juris Doctor degree from Atlanta Law School.

DONALD F. ARMAGNAC is Executive Vice President, Global Field Operations. As Executive Vice President of Global Field Operations, Mr. Armagnac is responsible for Global Services, Marketing Communications, Alliances, Systems Integration, Sales Services, Order Processing and Fulfillment. He joined QAD in October 1997 as Vice President of Sales Operations. Prior to joining QAD, he focused on the manufacturing market as International Vice President for Digital Equipment's

manufacturing and ERP systems integration practices. Mr. Armagnac was previously Digital's Western Region Sales Vice President supporting their largest clients in 11 western states. He is a graduate of St. Francis College and holds a master's degree from Weslyan University.

CHERYL M. SLOMANN joined QAD in May 1998 as Vice President, Corporate Controller and Chief Accounting Officer. Prior to joining QAD, Ms. Slomann served nine years with Allergan, a specialty pharmaceutical company, in various financial positions, including Director, Corporate Financial Planning and Manager, Corporate Reporting. She began her career at the public accounting firm of Ernst & Young. Ms. Slomann is a Certified Public Accountant and received her Bachelor of Science degree in Business Administration/Accounting from the University of Southern California.

ITEM 2. PROPERTIES

Our headquarters are located in Carpinteria, California in approximately 112,500 square feet of leased space in three facilities, 16,500 square feet of which are currently sublet to third parties. The master leases have expiration dates ranging from 2000 to 2005. We also own approximately 28 acres and 54,000 square feet of office space, which supports our operations, in a neighboring community, Summerland. This property carries an entitlement from Santa Barbara County for the construction of a company headquarters. We also own a 34-acre parcel in Carpinteria, California, which was acquired for development as an additional facility, but there are no immediate plans to develop the property.

Other major offices are located in Mount Laurel, New Jersey; Sao Paulo, Brazil; Birmingham, United Kingdom; Nieuwegein, Netherlands; Hoofddorp, Netherlands; Hong Kong, China; Tokyo, Japan; and

Sydney, Australia, in space aggregating approximately 143,000 square feet and subject to leases expiring on dates ranging from 2001 to 2011.

Our global presence is supported by satellite offices located in the United States, Mexico, Ireland, France, Germany, Poland, Turkey, South Africa, Singapore, Malaysia, Thailand, Korea, India, Australia and China. These offices occupy aggregate space of approximately 145,000 square feet and are subject to leases expiring on dates ranging from 2001 to 2005.

Although we have from time to time sought and may in the future seek new or expanded facilities for existing or additional offices, we expect that our current domestic and international facilities will be sufficient to meet our needs for at least the next 12 months.

ITEM 3. LEGAL PROCEEDINGS

We are not party to any material legal proceedings. We may from time to time be party, either as plaintiff or defendant, to various legal proceedings and claims, which arise, in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have an adverse effect on our consolidated results of operations or consolidated financial position.

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

None.

PART II

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

QAD common stock has been traded on the Nasdaq National Market since our initial public offering in August 1997. According to records of our transfer agent, we had approximately 386 stockholders of record as of April 10, 2000. The following table sets forth the high and low closing prices for QAD's common stock as reported by Nasdaq for the last two fiscal years.

	LOW SALE PRICE	HIGH SALE PRICE
Fiscal 2000:		

Fourth Quarter	$ 3.06	$13.94
Third Quarter	2.94	4.25
Second Quarter	3.06	3.91
First Quarter	2.91	4.38
Fiscal 1999:		
Fourth Quarter	$ 3.50	$ 7.00
Third Quarter	2.87	8.75
Second Quarter	7.44	15.00
First Quarter	13.00	17.38

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.

On December 23, 1999, we issued, under a private placement, 2,333,333 shares of our common stock for net consideration of $9.6 million to Recovery Equity Investors II, L.P. This private placement was effected under the exemption from registration provided by Section 4 (2) of the Securities Act of 1933 (SEC Act).

On December 15 1999, we issued 120,000 shares of our common stock in connection with the purchase of the remaining equity in Enterprise Engines, Inc. and these shares have been registered under the SEC Act on Form S-3. Some of these shares are subject to forfeiture if certain specified performance milestones are not achieved by the former majority shareholder. The value of the common stock shares has been shown net of the shares subject to forfeiture.

ITEM 6. SELECTED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE DATA)

Effective February 1, 1996, we changed our financial reporting year-end from December 31 to January 31.

	YEARS ENDED JANUARY 31,				YEAR ENDED DECEMBER 31,
	2000	1999	1998	1997	1995
STATEMENTS OF OPERATIONS DATA:					
Total revenue	$239,262	$193,344	$170,770	$126,444	$89,949
Operating income (loss)	(9,780)	(34,806)	14,695	2,720	(2,646)
Basic net income (loss) per share	(0.54)	(1.22)	0.38	0.05	(0.03)
Diluted net income (loss) per share	(0.54)	(1.22)	0.38	0.04	(0.03)
BALANCE SHEET DATA:					
Total assets	214,371	200,055	190,506	77,250	68,466
Long-term debt, less current portion	21,890	6,526	39	5,036	7,341

We have made seven acquisitions since the third quarter of fiscal 1999. Results of operations have been included in the financial statements since the respective dates of acquisition. These acquisitions are described in greater detail in footnote 2 to our financial statements included in Item 14.

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

INTRODUCTION

The following discussion should be read in conjunction with our financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K. Effective February 1, 1996, we changed our financial reporting year-end from December 31 to January 31.

OVERVIEW

Founded in 1979, QAD has historically been recognized as a provider of supply chain enabled ERP software. In 1986, we commercially released our open systems ERP application, MFG/PRO software. Since that time, we have introduced several new generations of our open systems MFG/PRO software, and have

significantly expanded our operations. With the advent of e-business, we are expanding our products and services offerings to meet the demands of today's market. As of January 31, 2000, we had approximately 1550 full-time employees, direct sales and support offices in 20 countries, approximately 30 distributors worldwide and more than 4,800 licensed sites in more than 80 countries.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items reflected in our statements of operations:

	YEARS ENDED JANUARY 31,		
	2000	1999	1998
Revenue:			
License fees	40%	55%	66%
Maintenance and other	38	37	31
Services	22	8	3
Total revenue	100	100	100
Costs and expenses:			
Cost of license fees	9	9	7
Other cost of revenue	36	22	17
Sales and marketing	34	47	39
Research and development	14	25	17
General and administrative	11	13	11
Restructuring charge	--	2	--
Total costs and expenses	104	118	91
Operating income (loss)	(4)	(18)	9
Other (income) expense	1	--	(1)
Income (loss) before income taxes	(5)	(18)	10
Income tax expense	2	1	4
Net income (loss)	(7)%	(19)%	6%

Total revenue for fiscal year 2000 was $239.3 million, which was an increase of $45.9 million or 24% over fiscal year 1999. Total revenue for fiscal year 1999 was $193.3 million, which was an increase of $22.5 million or 13% over fiscal year 1998. These increases were primarily due to growth in maintenance revenue from expansion of the installed base and increased services revenue due to the acquisition of six distributors since September 1998 and the launch of our Global Services business late in fiscal year 1999. This growth was partially offset by declines in license revenue primarily stemming from our customers' decisions to delay capital spending due to concerns over Y2K readiness.

As a result of these factors, revenue mix has shifted significantly away from higher margin license revenue, from 66% of total revenue in fiscal year 1998 to 55% and 40% in fiscal years 1999 and 2000, respectively. Lower margin services revenue had the largest proportional gains, from 3% of total revenue in fiscal year 1998 to 8% and 22% in fiscal years 1999 and 2000, respectively.

No single customer has accounted for more than 10 percent of our total revenue in any of the last three fiscal years. However, it is not uncommon to obtain a multi-million dollar contract with a single customer.

TOTAL COST OF REVENUE. Total cost of revenue (combined cost of license fees and other cost of revenue) as a percentage of total revenue increased from 24% in fiscal year 1998 to 31% and 45% in fiscal years 1999 and 2000, respectively. This increase was primarily due to the significant shift in revenue mix away from the higher margin license business and toward lower margin services. In addition, license margin has decreased from 90% in fiscal year 1998 to 77% in fiscal year 2000 due to a higher mix of third-party products included in our license fees.

SALES AND MARKETING. Sales and marketing expense decreased 12% to $80.1 million in fiscal year 2000 from $91.1 million in fiscal year 1999, due primarily to lower personnel costs resulting from the restructuring program initiated late in fiscal 1999. Sales and marketing expense increased 39% in fiscal year 1999 from $65.8 million in fiscal year 1998, due to the expansion of our global sales force, opening and supporting global sales offices and increased marketing expense to promote the QAD name and products.

RESEARCH AND DEVELOPMENT. Research and development expense declined 29% to $34.1 million in fiscal 2000 from $48.3 million in fiscal 1999, due to the restructuring program initiated late in fiscal 1999. In addition to reducing costs, this program realigned internal resources, including the transfer of research and development personnel into revenue-generating positions within the QAD services organization. Research and development expense increased 65% in fiscal year 1999 from $29.3 million in fiscal year 1998, due to enhancements to MFG/PRO software, including the ongoing migration of MFG/PRO software to object-oriented technology. In addition, the growth was due to increased staffing and associated support related to development of QAD eQ software.

GENERAL AND ADMINISTRATIVE. General and administrative expense increased 5% to $26.5 million in fiscal year 2000 from $25.4 million in fiscal year 1999 and increased 31% in fiscal year 1999 from $19.4 million in fiscal year 1998. The fiscal year 2000 increase was due to the amortization of intangible assets related to the seven acquisitions consummated since September 1998, partially offset by cost controls related to the restructuring program initiated late in fiscal 1999. The more significant increase in fiscal 1999 was primarily the result of costs associated with the expansion of our administrative infrastructure to support the growing operations, as well as the partial year amortization of intangible assets related to the fiscal year 1999 acquisitions.

RESTRUCTURING CHARGE. In response to changes in manufacturing capital software spending patterns during fiscal year 1999, we undertook a restructuring and realignment program that, among other things, more closely aligned costs with sales expectations. As part of the realignment, we reduced spending on research and development, including the transfer of research and development personnel into revenue-generating positions within our service organization. In all, we reduced our workforce (excluding staff added from the acquisitions) by approximately 15%, adjusted administration and marketing costs and narrowed our facilities expansion plans.

We recorded a restructuring charge of $4.3 million in fiscal year 1999 and concluded the program in fiscal year 2000 with an additional $1.2 million charge. The total $5.5 million charge consisted of costs associated with the consolidation of certain facilities ($3.6 million) and a reduction of approximately 230 positions across a broad cross-section of our operations ($1.9 million).

TOTAL OTHER (INCOME) EXPENSE. Total other (income) expense was $1,455,000, $(23,000) and $(2,320,000) in fiscal years 2000, 1999 and 1998, respectively. The increase in expense from fiscal year 1999 to 2000 was due to higher interest expense related to the debt incurred late in fiscal year 1999 and during fiscal year 2000, lower interest income on decreased cash, equivalents and short-term investment balances and a fiscal year 1999 write-down to adjust an equity investment to the current estimated fair market value. The decrease in income from fiscal year 1998 to 1999 was primarily the result of the fiscal year 1999 write-down of the equity investment, as well as an unfavorable change in foreign currency transaction and remeasurement (gains) and losses.

INCOME TAX EXPENSE. We recorded income tax expense of $5.1 million, $1.1 million and $7.2 million in the years ended January 31, 2000, 1999 and 1998, respectively. Our effective income tax rates were (45)%, (3)% and 42% in the years ended January 31, 2000, 1999 and 1998, respectively. QAD's effective income tax rate historically has benefited from the United States research and development tax credit and tax benefits generated from export sales made from the United States. We have available tax benefits associated with net operating loss carryforwards aggregating $79.4 million at January 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and met our capital expenditure

requirements through cash flows from operations, sales of equity securities and borrowings. We had working capital of $31.7 million and $20.7 million as of January 31, 2000 and 1999, respectively. Cash and cash equivalents and short-term investments were $35.9 million and $19.1 million at January 31, 2000 and 1999, respectively. The increases were primarily due to net cash provided by operations, net proceeds from borrowings and issuance of common stock, partially offset by capital expenditures.

Accounts receivable, net of the allowance for doubtful accounts and sales adjustments, increased to $98.6 million at January 31, 2000 from $95.3 million at January 31, 1999. Accounts receivable days' sales outstanding decreased to 125 days at January 31, 2000 from 131 days at January 31, 1999. We are continuing our focus on sales terms and collection processes to further improve cash flows and working capital.

Net cash provided by (used in) operating activities was $9.6 million, ($17.0) million and $11.9 million in fiscal years 2000, 1999 and 1998, respectively. The increase from fiscal year 1999 to 2000 relates primarily to the decreased net loss, as well as increased depreciation and amortization. The decrease from fiscal year 1998 to 1999 primarily stems from the variance between the fiscal year 1998 net income and the fiscal year 1999 net loss, partially offset by a decline in the rate of accounts receivable growth.

Net cash used in investing activities primarily relates to the purchase of property and equipment and the fiscal year 1999 acquisition of businesses and aggregated $7.4 million, $37.7 million and $18.8 million in fiscal years 2000, 1999 and 1998, respectively. At January 31, 2000, we did not have any material commitments for capital expenditures.

Net cash provided by financing activities primarily relates to proceeds from the fiscal year 1998 initial public offering and the fiscal year 2000 common stock private placement, as well as proceeds and payments of borrowings. The net cash flows from financing activities totaled $20.2 million, $1.0 million and $76.8 million in fiscal years 2000, 1999 and 1998, respectively.

As of January 31, 2000, we did not meet one of our bank covenants, but obtained a waiver from the lender, Bank One.

We believe that the cash on hand, net cash provided by operating activities and the available borrowings under our existing credit facility will provide us with sufficient resources to meet our current and long-term working capital requirements, debt service and other cash needs.

YEAR 2000 COMPLIANCE

Our business operations are significantly dependent upon the same proprietary software products we license to customers. Our management believes we successfully addressed Y2K readiness in our proprietary software products and in third-party software, computer and other equipment used internally. To date, we have not experienced any business interruptions associated with Y2K compliance issues. However, some uncertainty still exists in the software industry concerning the potential effects associated with Y2K readiness.

Although we currently offer software products that are designed and have been tested for Year 2000 compliance, there can be no assurance that our software products contain all necessary date code changes. To date, we have not been made aware of any Year 2000 compliance failures involving our customers or suppliers. Litigation may still arise surrounding business interruptions associated with Y2K issues. It is uncertain whether, or to what extent, this type of litigation may affect us.

FACTORS THAT MAY AFFECT FUTURE RESULTS AND MARKET PRICE OF STOCK

HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS

Our quarterly revenue, expenses and operating results have varied significantly in the past, and we anticipate that such fluctuations will continue in the future as a result of a number of factors, many of which are outside our control. The factors affecting these fluctuations include demand for our products and services, the size, timing and structure of significant licenses by customers, market acceptance of new or enhanced versions of our software products and products that operate with our products, the publication

of opinions about us, our products and technology by industry analysts, the entry of new competitors and technological advances by competitors, delays in localizing our products for new markets, delays in sales as a result of lengthy sales cycles, changes in operating expenses, foreign currency exchange rate fluctuations, changes in pricing policies by us or our competitors, customer order deferrals in anticipation of product enhancements or new product offerings by us or our competitors, the timing of the release of new or enhanced versions of our software products and products that operate with our products, changes in the method of product distribution and licensing (including the mix of direct and indirect channels), product life cycles, changes in the mix of products and services licensed or sold by us, customer cancellation of major planned software development programs and general economic factors.

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

A SIGNIFICANT PORTION OF OUR REVENUE IN ANY QUARTER MAY BE DERIVED FROM A LIMITED NUMBER OF LARGE, NON-RECURRING LICENSE SALES. We expect to continue to experience from time to time large, individual license sales, which may cause significant variations in quarterly license fees. We also believe that the purchase of our products is relatively discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any potential customer's business could result in order cancellations that could have a significant adverse impact on our revenue and quarterly results. Moreover, declines in general economic conditions could precipitate significant reductions in corporate spending for information technology, which could result in delays or cancellations of orders for our products.

OUR RECENT ACQUISITIONS OF SERVICE-RELATED REVENUE MAY NOT REDUCE THE QUARTERLY FLUCTUATIONS IN OUR REVENUE. During fiscal 2000, customer demand for QAD services was exceptional and services revenue became a substantial part of our business. As the percentage of revenue derived from maintenance and services increases and the less predictable license fees become a smaller proportion of our overall revenues, our overall quarterly revenue fluctuations may diminish. While the expenses associated with services operations are relatively predictable, the revenues are dependent upon the timing and size of customer orders to provide the services. To the extent that these services operations fail to secure orders from customers to provide services on a regular basis, our results may be negatively affected.

OUR EXPENSE LEVEL IS RELATIVELY FIXED AND IS BASED, IN SIGNIFICANT PART, ON EXPECTATIONS OF FUTURE REVENUE. Because our expense level is relatively fixed, if revenue levels are below expectations, expense levels could

be disproportionately high as a percentage of total revenue, and operating results would be immediately and adversely affected and losses could occur.

BECAUSE OF THE SIGNIFICANT FLUCTUATIONS IN OUR REVENUE, PERIOD-TO-PERIOD COMPARISONS MAY NOT BE MEANINGFUL. Based upon the factors described above, we believe that our quarterly revenue, expenses and operating results are likely to vary significantly in the future, that period-to-period comparisons of our results of operations are not necessarily meaningful and that, as a result, these comparisons should not be relied upon as indications of future performance. Moreover, although our revenue has generally increased in recent periods, there can be no assurance that our revenue will grow in future periods, at past rates or at all, or that we will be profitable on a quarterly or annual basis. We have in the past experienced and may in the future experience quarterly losses.

RISKS ASSOCIATED WITH SALES CYCLE

OUR PRODUCTS INVOLVE A VERY LONG SALES CYCLE AND THE TIMING OF SALES IS DIFFICULT TO PREDICT. Because the licensing of our products generally involves a significant commitment of capital (which ranges from approximately $50,000 to several million dollars), the sales cycle associated with a customer's purchase of our products is generally lengthy (with a typical duration of 4 to 15 months), varies from customer to customer and is subject to a number of significant risks over which we have little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by us or our competitors and general economic downturns that can result in delays or cancellations of information systems investments. Due in part to the strategic nature of our products, potential customers are typically cautious in making product acquisition decisions. The decision to license our products generally requires us to provide a significant level of education to prospective customers regarding the uses and benefits of our products, and we must frequently commit substantial presales support resources. We have historically relied on third parties for implementation and systems support services, which in the past caused sales cycles to be lengthened and may have resulted in the loss of sales. In fiscal 2000, we committed ourselves to make services a substantial part of our business and, we no longer rely exclusively on third parties for implementation and systems integration services, which should significantly mitigate these risks. However, uncertain outcome of our sales efforts and the length of our sales cycles could still result in substantial fluctuations in operating results. If sales forecasted from a specific customer for a particular quarter are not realized in that quarter, then we are unlikely to be able to generate revenue from alternative sources in time to compensate for the shortfall. As a result, and due to the relatively large size of some orders, a lost or delayed sale could have an adverse effect on our quarterly operating results.

DEPENDENCE ON THIRD-PARTY PRODUCTS

WE ARE DEPENDENT ON THIRD-PARTY PRODUCTS, PARTICULARLY PROGRESS SOFTWARE. Our MFG/PRO software is written in a programming language that is proprietary to Progress Software Corporation. We have entered into a license agreement with Progress that provides us and each of our subsidiaries, among other things, with the perpetual, worldwide, royalty-free right to use the Progress programming language to develop, market, distribute and license our software products. The agreement also provides for continued software support from Progress through June 2002 without charge to us. Progress may only terminate the agreement upon our adjudication as bankrupt, liquidation or other similar event, or if we have ceased business operations in full. Our success is dependent upon Progress continuing to develop, support and enhance this programming language, its tool set and database, as well as the continued market acceptance of Progress as a standard database program. We have in the past and may in the future experience product release delays because of delays in the release of Progress products or product enhancements. Any of these delays could have an adverse effect on our business, operating results and financial condition. MFG/PRO software employs Progress programming interfaces that allow MFG/PRO software to operate with Oracle Corporation database software. However, our MFG/PRO software does not run within programming environments

other than Progress and our customers must acquire rights to Progress Software in order to use MFG/PRO software. Our QAD Advanced Planning and Scheduling (APS) Products and QAD eQ software products are not dependent on Progress technology. The commercially available QAD APS products are primarily based upon products from Paragon Management Systems, Inc. The QAD eQ software, which recently went into production use at AT&T Wireless, is dependent on Gemstone technology.

We also maintain a number of development and product alliances with other third parties. These alliances include software developed to be sold in conjunction with QAD software products, technology developed to be included in or encapsulated within QAD software products and numerous third-party software programs that generally are not sold with QAD software but interoperate directly with QAD software through application program interfaces. We generally enter into joint development agreements with our third-party software development partners that govern ownership of the technology collectively developed. Each of our partner agreements and third-party development or re-seller agreements contain strict confidentiality and non-disclosure provisions for the service provider, end-user and third-party developer. Our third-party development agreements contain restrictions on the use of QAD technology outside of the development process. Any failure to establish or maintain successful

relationships with these third-party software providers or third-party installation, implementation and development partners or failure of these third-party software providers to develop and support their software could have an adverse effect on us.

RAPID TECHNOLOGICAL CHANGE

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. Customer requirements for products can change rapidly as a result of innovations or changes within the computer hardware and software industries, the introduction of new products and technologies (including new hardware platforms and programming languages) and the emergence, evolution or widespread adoption of industry standards. For example, increasing commercial use of the Internet is giving rise to new customer requirements and new industry standards. Our future success will depend upon our ability to continue to enhance our current product line and to develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance. In particular, we believe our future success will depend on our ability to convert our products to object-oriented technology, as well as our ability to develop products that will operate across the Internet. We can not ensure that we will be successful in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological advances by others. Our products may also not achieve market acceptance. Our failure to successfully develop and market product enhancements or new products could have an adverse effect on us.

NEW SOFTWARE RELEASES AND ENHANCEMENTS MAY ADVERSELY AFFECT OUR SOFTWARE SALES. While we generally take steps to avoid interruptions of sales due to the pending availability of new products, customers may delay their purchasing decisions in anticipation of the general availability of new or enhanced QAD software, which could have a adverse effect on us. The actual or anticipated introduction of new products, technologies and industry standards can also render existing products obsolete or unmarketable or result in delays in the purchase of those products. As a result, the life cycles of our products are difficult to estimate. We must respond to developments rapidly and incur substantial product development expenses. Any failure by QAD to anticipate or respond adequately to technology developments or customer requirements, or any significant delays in introduction of new products, could result in a loss of revenue. Moreover, significant delays in the general availability of new releases, significant problems in the installation or implementation of new releases, or customer dissatisfaction with new releases could adversely affect us.

EQ AND SUPPLY CHAIN SOLUTIONS UNDER DEVELOPMENT AND UNDERLYING TECHNOLOGY

OUR EQ AND SUPPLY CHAIN SOLUTIONS ARE STILL UNDER DEVELOPMENT. A significant element of our strategy is the development of QAD eQ and QAD APS software, a series of new products targeted at the e-business needs of manufacturing companies. Over the past three fiscal years, we have devoted substantial resources to developing our QAD eQ software and working with third parties to develop software components that may be included as part of or encapsulated within QAD APS software and QAD eQ software. The QAD APS product was released in September 1998. We have successfully performed preliminary tests on our first QAD eQ software release, an innovative business-to-business (B2B) Internet order management and exchange applications suite. We have completed our first beta test and the software is in production use at AT&T Wireless. However, we can not ensure that the QAD APS software, the initial release of QAD eQ software or our other planned releases for these software products, whether developed by us or third parties, will achieve the performance standards required for commercialization. In addition, these products may not achieve market acceptance or be profitable. If QAD APS software, QAD eQ software or our other planned supply chain management software products do not achieve such performance standards or do not achieve market acceptance, we would be adversely affected.

THE UNDERLYING TECHNOLOGY FOR OUR NEW APPLICATIONS IS NEW AND DEPENDENT ON SPECIFIC TECHNOLOGIES. QAD eQ software is being designed and built using the object-oriented technology of Sun Microsystems--Enterprise Java Beans. QAD eQ software depends on the commercial success of platforms that support Enterprise Java Beans in Application Server environments such as the Gemstone/J Application

Server supplied by Gemstone of Beaverton, Oregon. Similar to the way our MFG/PRO software is dependent upon Progress language and database technology, our new QAD eQ software is dependent on Java, Enterprise Java Beans, and technology supplied by Gemstone. We are in the process of porting our eQ software to the IBM SanFrancisco platform software to reduce our dependency on Gemstone.

Object-oriented applications, such as QAD eQ software, are characterized by technology development style and programming languages that differ from those used in traditional software applications, including our MFG/PRO 9.0 software. We believe that the flexibility inherent in object-based functionality will play a key role in the competitive manufacturing, distribution, financial, planning and service/support management information technology strategies of customers in our targeted industry segments. We can not ensure that we will be successful in developing our e-business software on a timely basis, if at all, or that if developed this software will achieve market acceptance.

We also are reliant on the Java programming language in developing and supporting our Java user interface for MFG/PRO software products. The failure to successfully incorporate Java in new products, to convert MFG/PRO software to Java-interfaced Progress Software components, to extend the MFG/PRO Java user interfaces, or of Java or Enterprise Java Beans to achieve market acceptance could have a adverse effect on us.

MARKET CONCENTRATION

OUR TARGET MARKETS ARE CONCENTRATED AND, AS A RESULT, WE ARE DEPENDENT UPON ACHIEVING SUCCESS IN THOSE MARKETS. We have made a strategic decision to concentrate our product development and sales and marketing in certain primary vertical industry segments--automotive, consumer products, electronics/industrial, food and beverage and medical. An important element of our strategy is to achieve technological and market leadership recognition for our software products in these segments. The failure of our products to achieve or maintain substantial market acceptance in one or more of these segments could have an adverse effect on us. If any of these targeted industry segments experiences a material slowdown in expansion or in prospects for future growth, that downturn would adversely affect the demand for our products. See discussion of concentration of credit risk in footnote 1 of our financial statements included in this Annual Report under Item 14.

DEPENDENCE UPON KEY PERSONNEL

WE ARE DEPENDENT UPON KEY PERSONNEL, AND NEED TO HIRE ADDITIONAL PERSONNEL IN ALL AREAS. Our future operating results depend in significant part upon the continued service of a relatively small number of key technical and senior management personnel, including Founder, Chairman of the Board and President, Pamela M. Lopker, and Chief Executive Officer, Karl F. Lopker, neither of whom is bound by an employment agreement. Pamela and Karl Lopker are married to each other and jointly own approximately 55 percent of QAD's outstanding common stock. The loss of one or more of these or other key individuals could have an adverse effect on QAD. We do not currently have key-person insurance.

Our future success also depends on our continuing ability to attract and retain other highly qualified technical and managerial personnel. Competition for these personnel is intense, and we have at times experienced difficulty in recruiting and retaining qualified personnel. We may be unable to retain our key technical and managerial employees and we may not be successful in attracting, assimilating and retaining other highly qualified technical and managerial personnel in the future. The loss of any member of our key technical and senior management personnel or the inability to attract and retain additional qualified personnel would have an adverse effect on us.

DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS

WE ARE DEPENDENT UPON THE DEVELOPMENT AND MAINTENANCE OF SALES AND MARKETING CHANNELS. We sell and support our products through direct and indirect sales organizations throughout the world. We have made significant expenditures in recent years in the expansion of our sales and marketing force, primarily outside the United States, and we plan to continue to expand our sales and marketing force. Our future success will depend in part upon the productivity of our sales and marketing force and our ability to continue to attract, integrate, train, motivate and retain new sales and marketing personnel. Competition for sales and marketing personnel in the software industry is intense. We can not ensure that we will be successful in hiring these personnel in accordance with

our plans. Neither can there be assurance that our recent and planned expenses in sales and marketing will ultimately prove to be successful or that the incremental revenue generated will exceed the significant incremental costs associated with these efforts. In addition, our sales and marketing organization may not be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of our current and potential competitors. If we are unable to develop and manage our sales and marketing force expansion effectively, we would be adversely affected.

Our indirect sales channel consists of approximately 30 distributors worldwide. We do not grant exclusive distribution rights to any of our distributors. Our distributors primarily sell independently to companies within their geographic territory but may also work in conjunction with our direct sales organization. We will need to maintain and expand our relationships with our existing distributors and enter into relationships with additional distributors to expand the distribution of our products. Current or future distributors may not provide the level and quality of expertise and service required to successfully license QAD software products. We also may not be able to maintain effective, long-term relationships with distributors. In addition, the distributors we select may not continue to meet our sales needs. Further, these distributors may market software products in competition with us in the future or otherwise reduce or discontinue their relationships with or support of us and our products. This may become more likely as we compete with some of our distributors through our own acquisition of distributors. Any failure to successfully maintain our existing distributor relationships or to establish new relationships in the future would have an adverse effect on us. In addition, if any of our distributors exclusively adopts a product other than QAD software products, or if any distributor reduces its sales efforts relating to QAD software products or increases support for competitive products, we could be adversely affected.

RELIANCE ON AND NEED TO DEVELOP ADDITIONAL RELATIONSHIPS WITH THIRD PARTIES

WE ARE RELIANT ON AND NEED TO DEVELOP ADDITIONAL RELATIONSHIPS WITH THIRD PARTIES. We have established strategic relationships with a number of consulting and systems integration organizations that we believe are important to our worldwide sales, marketing, service and support activities and the implementation of our products. We are aware that these third-party providers do not provide system integration services exclusively for our products and in many instances these firms have similar, and often more established, relationships with our principal competitors. We expect to continue to utilize third-party system integrators.

During fiscal 2000, we developed QAD services into a significant part of our business to offer implementation and integration services to our customers. We have designed our service organization so that we can subcontract our services to partners for specific technical needs and also subcontract services from our partners to meet our capacity requirements. We believe this method allows for additional flexibility in ensuring our customers' needs for implementation and installation services are met. These relationships also assist us in keeping pace with the technological and marketing developments of major software vendors, and, in certain instances, provide us with technical assistance for our product development efforts.

Organizations providing consulting and system integration and implementation services in connection with QAD software products include Deloitte & Touche, Origin and TRW. These and other third parties may not provide the level and quality of service required to meet the needs of our customers, we may not be able to maintain an effective, long-term relationship with these third parties, or these third parties may not continue to meet the needs of our customers. Further, we can not ensure that these third-party implementation providers, many of which have significantly greater financial, technical, personnel and marketing resources than QAD, will not market software products in competition with us in the future or will not otherwise reduce or discontinue their relationships with or support of us and our products. Any failure to maintain our existing relationships or to establish new relationships in the future, or the failure of these third parties to meet the needs of our customers, could have an adverse effect on us. In addition, if these third parties exclusively adopt a product or technology other than QAD software products or technology, or if these third parties reduce their support of QAD software products and technology or increase such support for competitive products or technology, we could be adversely affected.

We typically enter into separate agreements with each of our installation and implementation partners that provide these partners with the non-exclusive right to promote and market QAD software products, and to provide training, installation, implementation and other services for QAD software products, within a defined territory for a specified period of time (generally two years). Our installation and implementation partners generally do not receive fees for the sale of QAD software products unless they participate actively in a sale as a sales agent. However, they generally are permitted to set their own rates for their installation and implementation services, and we typically do not collect a royalty or percentage fee from these partners on services performed. We also enter into similar agreements with our distribution partners that grant these partners the non-exclusive right, within a specified territory, to market, license, deliver and support QAD software products. In exchange for these distributors' services, we grant a discount to the distributor for the license of our software products.

We also rely on third parties for the development or interoperation of key components of our software so that users of QAD software products will obtain the functionality demanded. These research and product alliances develop software to be sold in conjunction with QAD software products, technology to be included in or encapsulated within QAD software products and numerous third-party software programs that generally are not sold with QAD software products, but interoperate directly with QAD software through application program interfaces. We generally enter into reseller or joint development agreements with our third-party software development partners that govern ownership of the technology collectively

developed. Each of our partner agreements and third-party development agreements contains strict confidentiality and non-disclosure provisions for the service provider, end-user and third-party developer. Our third-party development agreements contain restrictions on the use of our technology outside of the development process. Any failure to establish or maintain successful relationships with these third-party software providers or these third-party installation, implementation and development partners or the failure of these third-party software providers to develop and support their software could have an adverse effect on us.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

OUR OPERATIONS ARE INTERNATIONAL IN SCOPE, WHICH EXPOSES US TO ADDITIONAL RISK, INCLUDING CURRENCY-RELATED RISK. We derived approximately 59%, 48% and 39% of our total revenue from sales outside the United States in fiscal years 2000, 1999 and 1998, respectively. Of our more than 4,800 licensed sites in more than 80 countries as of January 31, 2000, over 70% are outside the United States. See the Foreign Exchange section in Item 7A.

CONTROL BY PRINCIPAL STOCKHOLDERS

OUR PRINCIPAL STOCKHOLDERS MAY CONTROL OUR MANAGEMENT DECISIONS. Pamela and Karl Lopker jointly and beneficially own approximately 55% of our outstanding common stock. Recovery Equity Investors II, L.P. owns approximately 9% of our outstanding common stock. Current directors and executive officers as a group beneficially own approximately 65% of the common stock. The Lopkers currently constitute two of the six members of the board and therefore have significant influence in directing the actions of the board of directors.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN EXCHANGE. Historically, our revenue from international operations has primarily been denominated in United States dollars. However, due to the recent acquisitions of several international distributors and the launch of QAD services, a higher percentage of our business is now conducted in currencies other than the Untied States dollar. In fiscal 2000, approximately 65% of our revenue was denominated in United States dollars compared to over 90% in fiscal years 1999 and 1998. The remainder was denominated in approximately ten different currencies. We also incur a significant portion of our expenses in currencies other than the United States dollar. As a result, fluctuations in the values of the respective currencies relative to the other currencies in which we generate revenue could adversely affect us.

Fluctuations in currencies relative to the United States dollar have affected and will continue to affect period-to-period comparisons of our reported results of operations. In fiscal years 2000, 1999 and 1998, foreign

currency transaction (gains) and losses totaled $552,000, $61,000 and $(879,000), respectively. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future, and we can not predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future, as we deem appropriate.

INTEREST RATES. QAD invests its surplus cash in a variety of financial instruments, consisting principally of bank time deposits and short-term marketable securities with maturities of less than one year. QAD's investment securities are held for purposes other than trading. Cash balances held by subsidiaries are invested in short-term time deposits with the local operating banks. Additionally, our short and long-term debt bears interest at variable rates.

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2001 to assess the impact of hypothetical changes in interest rates. Based upon the results of these analyses, a 10% adverse change in interest rates from the 2000 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for the next fiscal year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included in Item 14 of this Annual Report on Form 10-K.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding the directors is incorporated by reference to the section entitled "Election of Directors" appearing in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, within 120 days after the end of our fiscal year 2000. Certain information with respect to persons who are or may be deemed to be executive officers of the Registrant is set forth under the caption "Executive Officers of the Registrant" in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the information set forth under the caption "Executive Compensation" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth under the caption "Director and Executive Officers Stock Ownership" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions are incorporated by reference to the information set forth under the caption "Certain Transactions" in our Definitive Proxy Statement for the Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of our fiscal year 2000.

PART IV

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

(A) 1. FINANCIAL STATEMENTS

The following financial statements are filed as a part of this Annual Report on Form 10-K:

QAD INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	PAGE
Independent Auditors' Report	29
Consolidated Balance Sheets as of January 31, 2000 and 1999	30
Consolidated Statements of Operations for the years ended January 31, 2000, 1999 and 1998	31
Consolidated Statement of Stockholders' Equity for the years ended January 31, 2000, 1999 and 1998	32
Consolidated Statements of Cash Flows for the years ended January 31, 2000, 1999 and 1998	33
Notes to Consolidated Financial Statements	34

(A) 2. FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule is filed as a part of this Annual Report on Form 10-K:

	PAGE
II. VALUATION AND QUALIFYING ACCOUNTS	48

All other schedules are omitted because they are not required or the required information is presented in the financial statements or notes thereto.

(A) 3. EXHIBITS

See the Index of Exhibits on page 50.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended January 31, 2000.

INDEPENDENT AUDITORS' REPORT

The Board of Directors of
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2000. These consolidated financial statements are the responsibility of QAD's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries at January 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2000 in conformity with generally accepted accounting principles.

KPMG LLP

Los Angeles, California
March 3, 2000, except for the last paragraph
of note 6, which is as of April 19, 2000

QAD INC.
CONSOLIDATED BALANCE SHEETS
AS OF JANUARY 31, 2000 AND 1999
(IN THOUSANDS, EXCEPT FOR NUMBER OF SHARES)

	2000	1999
ASSETS		
Current assets:		
Cash and equivalents	$ 35,936	$ 16,078
Short-term cash investments	--	3,000
Accounts receivable, net	98,567	95,344
Other current assets	15,523	19,680
Total current assets	150,026	134,102
Property and equipment, net	32,729	36,835
Capitalized software development costs, net	8,233	8,646
Other assets, net	23,383	20,472
Total assets	$214,371	$200,055
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and capital lease obligations	$ 1,240	$ 7,166
Accounts payable	17,671	16,314
Accrued expenses	34,647	29,933
Deferred revenue and deposits	64,731	59,946
Total current liabilities	118,289	113,359
Notes payable and capital lease obligations, less current portion	21,890	6,526
Other deferred liabilities	200	581
Minority interest	563	160
Stockholders' equity:		
Preferred stock, $0.001 par value. Authorized 5,000,000 shares; none issued and outstanding	--	--
Common stock, $0.001 par value. Authorized 150,000,000 shares; issued and outstanding 33,012,210 shares and 29,703,500 shares at January 31, 2000 and 1999, respectively	33	30
Additional paid-in-capital	111,558	99,566
Accumulated deficit	(34,876)	(18,526)
Receivable from stockholders	(5)	(54)
Unearned compensation--restricted stock	(146)	(970)
Accumulated other comprehensive loss	(3,135)	(617)
Total stockholders' equity	73,429	79,429
Total liabilities and stockholders' equity	$214,371	$200,055

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JANUARY 31, 2000, 1999 AND 1998
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	2000	1999	1998
Revenue:			
License fees	$ 95,120	$105,928	$113,447
Maintenance and other	90,579	72,070	51,696
Services	53,563	15,346	5,627
Total revenue	239,262	193,344	170,770
Costs and expenses:			
Cost of license fees	21,427	17,674	11,503
Other cost of revenue	85,812	41,341	30,048
Sales and marketing	80,057	91,128	65,785
Research and development	34,084	48,332	29,317
General and administrative	26,510	25,361	19,422
Restructuring charge	1,152	4,314	--
Total costs and expenses	249,042	228,150	156,075
Operating income (loss)	(9,780)	(34,806)	14,695
Other (income) expense:			
Interest income	(736)	(2,152)	(1,785)
Interest expense	1,972	602	1,064
Other (income) expense	219	1,527	(1,599)
Total other (income) expense	1,455	(23)	(2,320)
Income (loss) before income taxes	(11,235)	(34,783)	17,015
Income tax expense	5,101	1,138	7,159
Net income (loss)	$(16,336)	$(35,921)	$ 9,856
Basic net income (loss) per share	$ (0.54)	$ (1.22)	$ 0.38
Diluted net income (loss) per share	$ (0.54)	$ (1.22)	$ 0.38

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2000, 1999 AND 1998
(IN THOUSANDS)

	COMMON STOCK AND ADDITIONAL PAID-IN-CAPITAL		RETAINED EARNINGS (ACCUMULATED DEFICIT)	RECEIVABLE FROM STOCKHOLDERS	RESTRICTED STOCK		ACCUMULATED OTHER COMPREHENSIVE LOSS
	SHARES	AMOUNT			SHARES	AMOUNT	
BALANCE JANUARY 31, 1997	22,219	$ 5,942	$ 7,539	$(197)	(409)	$(2,129)	$ (351)
Comprehensive income:							
Net income	--	--	9,856	--	--	--	--
Translation adjustments	--	--	--	--	--	--	--
Total comprehensive income							
Common stock activity:							
Under initial public offering (net of offer costs)	6,612	90,516	--	--	--	--	--
Under stock purchase plan and incentive plan	251	2,413	--	--	--	--	--
Under stock options	299	709	--	--	--	--	--
Under performance awards	50	431	--	--	--	--	--
Under restricted stock awards	20	194	--	--	(20)	(194)	--
Common stock earned under restricted stock awards	2	--	--	--	208	663	--
Tax benefit associated with stock option exercises	--	523	--	--	--	--	--
Common stock							

repurchases	(335)	(3,340)	--	--	--	--	--
Restricted stock awards cancelled	(22)	(150)	--	--	22	150	--
Receivable from stockholders	--	--	--	(200)	--	--	--
BALANCE JANUARY 31, 1998	29,096	97,238	17,395	(397)	(199)	(1,510)	(351)
Comprehensive loss:							
Net loss	--	--	(35,921)	--	--	--	--
Translation adjustments	--	--	--	--	--	--	(266)
Total comprehensive loss							
Common stock activity:							
Under stock purchase plan and incentive plan	372	1,804	--	--	--	--	--
Under stock options	282	38	--	--	--	--	--
Under restricted stock awards	--	305	--	--	--	(305)	--
Common stock earned under restricted stock awards	7	--	--	--	62	447	--
Tax benefit associated with stock option exercises	--	1,553	--	--	--	--	--
Common stock repurchases	(6)	(944)	--	--	--	--	--
Restricted stock awards cancelled	(47)	(398)	--	--	49	398	--
Receivable from stockholders	--	--	--	343	--	--	--
BALANCE JANUARY 31, 1999	29,704	99,596	(18,526)	(54)	(88)	(970)	(617)
Comprehensive loss:							
Net loss	--	--	(16,336)	--	--	--	--
Translation adjustments	--	--	--	--	--	--	(2,518)
Total comprehensive loss							
Common stock activity:							
Under stock purchase plan and incentive plan	474	1,404	--	--	--	--	--
Under stock options	433	505	--	--	--	--	--
Common stock earned under restricted stock awards	10	--	--	--	10	151	--
Tax benefit associated with stock option exercises	--	656	--	--	--	--	--
Under business acquisition, net	120	506	--	--	--	--	--
Restricted stock awards cancelled	(60)	(673)	--	--	60	673	--
Under private placement	2,333	9,600	--	--	--	--	--
Other	(2)	(3)	(14)	49	--	--	--
BALANCE JANUARY 31, 2000	33,012	$111,591	$(34,876)	$ (5)	(18)	$ (146)	$(3,135)

	TOTAL STOCKHOLDERS' EQUITY	COMPREHENSIVE INCOME (LOSS)
BALANCE JANUARY 31, 1997	$ 10,804	
Comprehensive income:		
Net income	9,856	$ 9,856
Translation adjustments	--	--
Total comprehensive income		$ 9,856
Common stock activity:		
Under initial public offering (net of offer costs)	90,516	
Under stock purchase plan and incentive plan	2,413	
Under stock options	709	
Under performance awards	431	
Under restricted stock awards	--	
Common stock earned under restricted stock awards	663	
Tax benefit associated with stock option exercises	523	
Common stock		

repurchases	(3,340)	
Restricted stock awards cancelled	--	
Receivable from stockholders	(200)	
BALANCE JANUARY 31, 1998	112,375	
Comprehensive loss:		
Net loss	(35,921)	$(35,921)
Translation adjustments	(266)	(266)
Total comprehensive loss		$(36,187)
Common stock activity:		
Under stock purchase plan and incentive plan	1,804	
Under stock options	38	
Under restricted stock awards	--	
Common stock earned under restricted stock awards	447	
Tax benefit associated with stock option exercises	1,553	
Common stock repurchases	(944)	
Restricted stock awards cancelled	--	
Receivable from stockholders	343	
BALANCE JANUARY 31, 1999	79,429	
Comprehensive loss:		
Net loss	(16,336)	$(16,336)
Translation adjustments	(2,518)	(2,518)
Total comprehensive loss		$(18,854)
Common stock activity:		
Under stock purchase plan and incentive plan	1,404	
Under stock options	505	
Common stock earned under restricted stock awards	151	
Tax benefit associated with stock option exercises	656	
Under business acquisition, net	506	
Restricted stock awards cancelled	--	
Under private placement	9,600	
Other	32	
BALANCE JANUARY 31, 2000	$ 73,429	

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2000, 1999 AND 1998
(IN THOUSANDS)

	2000	1999	1998
Cash flows from operating activities:			
Net income (loss)	$(16,336)	$(35,921)	$ 9,856
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	17,829	11,055	6,921
Provision for doubtful accounts and sales adjustments	(261)	3,627	4,370

Loss on disposal of equipment	9	698	82
Asset write-off	--	3,060	--
Compensation under stock awards	(80)	320	1,361
Other, net	90	(45)	(79)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(3,316)	(8,420)	(33,508)
Other assets	1,932	(9,237)	(490)
Accounts payable	974	2,629	3,375
Accrued expenses	4,500	4,739	5,577
Deferred revenue and deposits	4,257	10,451	14,467
Net cash provided by (used in) operating activities	9,598	(17,044)	11,932
Cash flows from investing activities:			
Purchase of property and equipment	(6,863)	(17,670)	(13,561)
Investment in software development	(2,720)	(4,072)	(2,044)
Acquisitions of businesses, net of cash acquired	(439)	(12,813)	--
Investment in equity securities	(500)	--	(3,000)
Purchase of short-term cash investment	--	(3,000)	--
Proceeds from sale of short-term cash investment	3,000	--	--
Other, net	93	(179)	(209)
Net cash used in investing activities	(7,429)	(37,734)	(18,814)
Cash flows from financing activities:			
Proceeds from notes payable	21,901	--	9,648
Reduction of notes payable	(13,171)	(252)	(22,967)
Proceeds from initial public offering	--	--	90,516
Issuance of common stock for cash	11,509	1,842	3,122
Repurchase of common stock	(67)	(944)	(3,340)
Receivable from stockholders	49	343	(200)
Other, net	(14)	--	--
Net cash provided by financing activities	20,207	989	76,779
Effect of exchange rates on cash and equivalents	(2,518)	(215)	(116)
Net increase (decrease) in cash and equivalents	19,858	(54,004)	69,781
Cash and equivalents at beginning of period	16,078	70,082	301
Cash and equivalents at end of period	$ 35,936	$ 16,078	$ 70,082
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 1,845	$ 335	$ 892
Income taxes	1,137	4,390	1,179
Supplemental schedule of noncash investing and financing activities:			
Issuance of note payable for acquisition of business	500	12,363	--
Issuance of common stock for acquisition of business	506	--	--

See accompanying notes to consolidated financial statements.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of QAD Inc. and all of our subsidiaries. All significant transactions among the consolidated entities have been eliminated from the financial statements.

USE OF ESTIMATES

The financial statements have been prepared in conformity with generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

CASH AND EQUIVALENTS AND SHORT-TERM CASH INVESTMENTS

We consider all highly liquid investments purchased with an original

maturity of three months or less to be cash equivalents. Short-term cash investments include those investments with original maturities in excess of three months.

REVENUE RECOGNITION

We derive revenue from license fees, maintenance and other, and services. License fees are primarily obtained from the licensing of our software products and also include revenue from third-party software sold in conjunction with QAD software. Maintenance and other revenue is derived primarily from the performance of maintenance contracts. Services revenue consists of implementation, technical and training services. Revenue is recognized in accordance with Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," as modified by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition with respect to Certain Transactions."

Revenue from software license agreements, including licenses sold through distributors, is recognized at the time of shipment, net of any applicable distributor discount, provided there are no remaining significant obligations to be fulfilled by us and collectibility is probable. Typically, our software licenses do not include significant vendor obligations. Where license contracts call for payment terms in excess of 12 months from date of shipment, revenue is recognized as payments become due. Maintenance revenue for ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which is generally 12 months. Services revenue, consisting of training and consulting services, is recognized as the services are performed. Allowances are estimated and provided for in the period of sale.

CAPITALIZED SOFTWARE DEVELOPMENT COSTS

We capitalize software development costs incurred in connection with the localization and translation of our products once technological feasibility has been achieved. Capitalized development costs are amortized on a straight-line basis over three years and charged to cost of revenue. All other development costs are expensed to research and development as incurred.

INCOME TAXES

We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities and expected benefits of utilizing net operating loss and credit carryforwards. The impact on deferred taxes of changes in tax rates and laws, if any, are

applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. No provision is made for taxes on unremitted earnings of certain non-U.S. subsidiaries, which are or will be reinvested indefinitely in such operations.

COMPUTATION OF NET INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted net income (loss) per share:

	YEARS ENDED JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income (loss)	$(16,336)	$(35,921)	$ 9,856
Weighted average shares of common stock outstanding used in basic income (loss) per share calculation	30,509	29,356	25,701
Weighted average shares of common stock equivalents issued using the treasury stock method	--	--	582
Weighted average shares of common stock and common stock			

equivalents outstanding used in diluted income (loss) per share calculation	30,509	29,356	26,283
Basic net income (loss) per share	$ (0.54)	$ (1.22)	$ 0.38
Diluted net income (loss) per share	$ (0.54)	$ (1.22)	$ 0.38

Common stock equivalent shares consist of the shares issuable upon the exercise of stock options using the treasury stock method. Shares of common stock equivalents of approximately 454,000 and 1,172,000 for fiscal years 2000 and 1999 were not included in the diluted calculation because they were anti-dilutive. Due to the net loss for the fiscal years 2000 and 1999, basic and diluted per share amounts are the same.

FOREIGN CURRENCY TRANSLATION

The financial position and results of operations of our foreign subsidiaries are generally determined using the U.S. dollar as the functional currency. Gains and losses resulting from foreign currency transactions and remeasurement adjustments for those foreign entities whose books of record are not maintained in the functional currency are included in earnings. Foreign currency transaction and remeasurement (gains) and losses for the fiscal years 2000, 1999 and 1998 totaled $552,000, $61,000 and $(879,000), respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and equivalents, short-term cash investments, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising our customer base, and their dispersion across many different industries and locations throughout the world. No single customer accounted for ten percent or more of revenue for fiscal 2000, 1999 or 1998. At January 31, 2000, one customer represented approximately 15% of trade receivables. As of March 31, 2000, a significant portion of this receivable was collected such that this customer

represented 1% of trade receivables. There was no concentration of trade receivables with any one customer at January 31, 1999.

Our debt instruments bear variable market interest rates. Therefore, the carrying value of these notes approximates fair value.

LONG-LIVED ASSETS

Property and equipment are stated at cost. Additions, major renewals and improvements are capitalized, while maintenance and repairs are expensed. Upon disposition, the net book value of assets is relieved and resulting gains or losses are reflected in earnings. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful life of the related asset. Asset lives range from 3 to 39 years.

Goodwill represents the excess of acquisition costs over the fair value of net assets of purchased businesses and is amortized on a straight-line basis over periods of 10 to 15 years. Other intangible assets include capitalized software development costs, employment agreements, covenants not to compete and customer contracts. These assets are amortized on a straight-line basis over their estimated useful lives of 2 to 5 years. Amortization expense for fiscal years 2000, 1999 and 1998 was $6.7 million, $1.7 million and $1.1 million, respectively.

Long-lived assets are reviewed for impairment in value based upon undiscounted future operating cash flows, and appropriate losses are recognized, whenever the carrying amount of an asset may not be recovered.

ACCOUNTING FOR STOCK OPTIONS

Prior to January 1, 1996, we accounted for our stock option grants in accordance with the provisions of Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations.

As such, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, we adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in the year ended December 31, 1995 and future years as if the fair value-based method defined in SFAS No. 123 had been applied. We have elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

RECLASSIFICATIONS

Certain prior year balances have been reclassified to conform to current year presentation.

2. ACQUISITIONS

During fiscal years 2000 and 1999, we acquired controlling interest in seven businesses:

- Distributor operations and assets of Computer Systems for Business International S.A., a distributor in Poland, in September 1998.

- Iris-Ifec Co., Ltd., a Thailand-based distributor and systems integrator, in October 1998.

- QAD Sistemas Integrados Casa de Software, S.A. de C.V. and QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V., a Mexico-based distributor, in October 1998.

- United Kingdom and Netherlands software distributor operations and assets of TRW Integrated Supply Chain Solutions, in November 1998.

- OpenPro (Pty.) Limited, a South Africa-based distributor, in February 1999.

- ATOS Integration SA, a France-based distributor, in June 1999.

- Enterprise Engines, Inc. (EEI), a California-based software technology development company, in December 1999.

The cost of the fiscal year 2000 acquisitions totaled $3.0 million, while the cost of the fiscal year 1999 acquisitions totaled $25.9 million, including $0.4 million in earnout payments made during fiscal year 2000. All of the acquisitions were accounted for using the purchase method. Goodwill related to the acquisitions of $3.3 million in fiscal year 2000 and $10.7 million in fiscal year 1999 is being amortized over periods of 10 to 15 years. Results of operations have been included in the financial statements since the respective dates of acquisition.

Prior shareholders of these businesses have future remaining earnouts of up to $5.4 million, and 27,000 shares of QAD common stock, which may be added to the purchase price over the next four years.

The historical operations of the companies acquired are not material, individually, or in aggregate to our consolidated operations or financial position, and therefore, supplemental pro forma information has not been presented.

3. RESTRUCTURING CHARGE

In response to changes in customers' manufacturing capital software spending patterns during fiscal year 1999, we undertook a restructuring program that, among other things, more closely aligned costs with sales expectations. The program included the consolidation of certain facilities and an approximate reduction of 230 positions across a broad cross-section of QAD.

The restructuring plan, which resulted in a fiscal year 1999 charge of $4.3 million was continued in fiscal year 2000 with an additional $1.2 million charge in the quarter ended July 31, 1999. The fiscal 2000 charge was comprised of $0.9 million in employee reduction costs and $0.3 million of facility consolidation costs, while the fiscal 1999 charge was comprised of $1.0 million in employee reduction costs and $3.3 million of facility consolidation costs. As of January 31, 2000, $4.8 million of the total $5.5 million restructuring charge was utilized and we expect to pay the remaining balance by January 31, 2002. The liability was increased by $0.1 million during the year ended January 31, 2000 to reflect changes in estimates used in determining the January 31, 1999 balance.

4. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	JANUARY 31,	
	2000	1999
	(IN THOUSANDS)	
Accounts receivable, net		
Accounts receivable	$104,857	$103,368
Less allowance for doubtful accounts and sales adjustments	(6,290)	(8,024)
	$ 98,567	$ 95,344
Other current assets		
Prepaid expenses	$ 3,244	$ 5,896
Deferred income taxes	2,837	3,772
Other	9,442	10,012
	$ 15,523	$ 19,680
Property and equipment, net		
Land and buildings	$ 8,420	$ 8,208
Automobiles	490	138
Computer equipment and software	41,781	36,687
Furniture and office equipment	13,548	12,948
Leasehold improvements	4,770	4,323
Equipment under capital lease	984	1,879
	69,993	64,183
Less accumulated depreciation and amortization	(37,264)	(27,348)
	$ 32,729	$ 36,835
Capitalized software development costs, net		
Capitalized software development cost	$ 15,595	$ 12,533
Less accumulated amortization	(7,362)	(3,887)
	$ 8,233	$ 8,646
Other assets, net		
Goodwill	$ 14,369	$ 9,929
Other intangible assets	8,607	7,840
Less accumulated amortization	(4,365)	(1,263)
	18,611	16,506
Deferred income taxes	1,991	1,073
Other assets	2,781	2,893
	$ 23,383	$ 20,472
Accrued expenses		
Accrued payroll	$ 16,811	$ 12,595
Accrued royalties	6,035	2,057

Accrued other	11,801	15,281
	$ 34,647	$ 29,933

5. COMPREHENSIVE INCOME (LOSS)

Comprehensive income includes changes in the balances of items that are reported directly in a separate component of stockholders' equity on the Consolidated Balance Sheets. Accumulated other comprehensive loss consists of the following:

	YEARS ENDED JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Foreign currency translation adjustments			
Beginning balance	$ (617)	$(351)	$(351)
Current year change	(2,518)	(266)	--
Total accumulated other comprehensive loss	$(3,135)	$(617)	$(351)

6. NOTES PAYABLE AND CAPITALIZED LEASE OBLIGATIONS

	JANUARY 31,	
	2000	1999
	(IN THOUSANDS)	
Line of credit	$16,980	$ --
Subordinated notes	--	12,362
Promissory note	4,940	--
Capitalized leases	527	1,102
Other	683	228
	23,130	13,692
Less current maturities	1,240	7,166
	$21,890	$ 6,526

In April 1999, we entered into a secured credit agreement with Bank One, which expires on April 18, 2002. The maximum borrowings under this credit agreement is subject to the monthly borrowing base, up to $25 million as of January 31, 2000, of which $8 million dollars was available and unutilized. This credit agreement is secured by certain QAD assets and can be terminated voluntarily by us. Interest is equal to the LIBOR plus 2.50% or ABR plus 1.00%. ABR is the higher of the corporate base rate or the Federal Funds Effective Rate plus 0.50%. As of January 31, 2000, the rate was 9.5% based on an ABR of 8.5% plus 1.0%. We pay an annual commitment fee of 0.625% calculated on the average unused portion of the $25 million maximum.

In April 1999, we repaid the subordinated notes, which were originally issued on November 30, 1998, totaling $12.4 million in principal amount from the Bank One line of credit borrowings.

On November 8, 1999, we raised an additional $5.0 million of long-term debt from First Credit Bank, a California Banking Corporation, secured by our real property located on Ortega Hill Road, Summerland, California. The note has a

5-year maturity, with a variable interest rate based on the prime rate plus 2.5%. The initial rate was set at 10.75% and the rate as of January 31, 2000 was 11.0%. The principal amortizes at a rate of $20,000 per month, with the balance due on November 8, 2004. The outstanding balance as of January 31, 2000 was $4.9 million. Concurrently with this financing, the commitment under our revolving credit facility with Bank One was reduced by $5 million to $25 million.

As of January 31, 2000, we did not meet one of our covenants on the Bank One line of credit, but obtained a waiver subsequent to fiscal year-end. Pursuant to obtaining the bank waiver, Bank One amended the financial covenants of the secured credit agreement.

7. INCOME TAXES

Income tax expense is summarized as follows:

	YEARS ENDED JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Current:			
Federal	$2,601	$ 3,080	$1,675
State	154	(775)	197
Foreign	1,521	(361)	2,421
Total	4,276	1,944	4,293
Deferred:			
Federal	(542)	(1,914)	2,449
State	--	881	(573)
Foreign	1,367	227	990
Total	825	(806)	2,866
	$5,101	$ 1,138	$7,159

Actual income tax expense differs from that obtained by applying the statutory Federal income tax rate of 34% (35% in fiscal 1998) to income (loss) before income taxes as follows:

	YEARS ENDED JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Statutory Federal income tax rate	34%	34%	35%
Computed expected tax expense (benefit)	$(3,820)	$(11,827)	$ 5,968
State income taxes, net of Federal income tax benefit	102	(806)	815
Incremental tax expense from foreign operations	(507)	415	203
Foreign withholding taxes	768	--	--
Net change in valuation allowance	11,407	13,401	(267)
Meals and entertainment	426	407	325
Research, AMT and foreign tax credits	(5,155)	(408)	(1,135)
Foreign dividends	--	--	541
Reduction of research and development credits and foreign tax credits previously recorded	--	--	600
Tax expense related to prior years	1,599	--	--
Other	281	(44)	109
	$ 5,101	$ 1,138	$ 7,159

Significant components of the deferred tax assets and liabilities are as follows:

	JANUARY 31,	
	2000	1999
	(IN THOUSANDS)	
Deferred tax assets:		
Allowance for doubtful accounts and sales adjustments	$ 1,013	$ 2,231
Accrued vacation	1,064	661
Accrued commission	128	369
Alternative minimum tax	296	91
Research and development credits	6,387	1,232
Foreign tax credits	2,265	1,594
Depreciation and amortization	215	269
Net operating loss carryforwards	18,716	14,937
Other	3,972	2,292
	34,056	23,676
Less valuation allowance	(26,622)	(15,215)
Net deferred tax assets	$ 7,434	$ 8,461
Deferred tax liabilities:		
Capitalized software development costs	$ 1,737	$ 2,142
State income taxes	154	87
Other	715	983
Mark to market	--	404
	2,606	3,616
Total net deferred tax asset	$ 4,828	$ 4,845

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

We have net operating loss carryforwards, with various expiration dates, of $79.4 million as of January 31, 2000. At January 31, 2000 and 1999, the valuation allowance attributable to deferred tax assets was $26.6 million and $15.2 million, respectively, an overall increase of $11.4 million. The increase in the valuation allowance relates primarily to benefits associated with net operating losses and tax credit carryforwards.

8. 401(k) PLAN

We have a defined contribution 401(k) plan, which is available to U.S. employees after 30 days of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. We match 75 percent of the employees' contributions up to the first four percent. We may make additional contributions at the discretion of the board of directors. Participants are immediately vested in their employee contributions. Employer contributions vest over a five-year period. The employer contributions for fiscal years 2000, 1999 and 1998 were $1,073,000, $1,430,000 and $371,000, respectively.

9. COMMITMENTS AND CONTINGENCIES

We lease certain office facilities, office equipment and automobiles under operating lease agreements. Total rent expense for fiscal years 2000, 1999 and 1998 was $9.0 million, $7.7 million and $6.5 million, respectively. Future minimum rental payments under non-cancelable operating lease commitments with a term of more than one year as of January 31, 2000 are as follows: $7.3 million in 2001; $5.0 million in 2002; $2.9 million in 2003; $1.8 million in 2004; $1.4 million in 2005 and $5.2 million thereafter.

We are subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on our consolidated results of operations or financial position.

10. BUSINESS SEGMENT INFORMATION

QAD operates in geographic regions. The North America region includes the United States and Canada. The EMEA region includes Europe, the Middle East and Africa. The Asia Pacific region includes Asia and Australia. The Latin America region includes South America, Central America and Mexico.

Operating income attributable to each business segment is based upon the management assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by QAD's manufacturing operations at the transfer price charged to the distribution operation. Income from manufacturing operations is included in the Corporate operating segment. Research and development costs are also included in the Corporate operating segment. Identifiable assets are assigned by region based upon the location of each legal entity.

During fiscal year 2000, management changed the composition of its reportable segments for operating income (loss), as well as for depreciation and amortization, in order to disclose components related to the corporate segment. Prior period segment information has not been restated to separately disclose corporate segment information, as it is impracticable to do so.

	BUSINESS SEGMENT INFORMATION YEARS ENDED JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Revenue:			
North America	$100,701	$103,708	$105,886
EMEA	92,679	57,511	42,918
Asia Pacific	32,600	26,534	18,168
Latin America	13,282	5,591	3,798
	$239,262	$193,344	$170,770
Operating income (loss):			
North America	$ 1,255	$ (8,539)	$ 24,569
EMEA	905	(7,591)	1,190
Asia Pacific	(4,779)	(10,800)	(10,484)
Latin America	(2,211)	(3,562)	(580)
Corporate	(3,798)	--	--
Restructuring charge	(1,152)	(4,314)	--
	$ (9,780)	$(34,806)	$ 14,695
Depreciation and amortization:			
North America	$ 1,594	$ 7,892	$ 5,446
EMEA	4,216	1,885	560
Asia Pacific	1,436	867	829
Latin America	1,053	411	86
Corporate	9,530	--	--

	$ 17,829	$ 11,055	$ 6,921

	JANUARY 31,	
	2000	1999
Identifiable assets:		
North America	$ 96,853	$ 88,934
EMEA	84,233	83,850
Asia Pacific	24,575	17,811
Latin America	8,710	9,460
	$214,371	$200,055

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

EMPLOYEE STOCK OPTION AGREEMENTS

We have stock option agreements with certain key employees. As of January 31, 2000 and 1999, options to purchase 4,326,000 and 3,676,000 shares of common stock were outstanding. Outstanding

options generally vest over a four-year period and have contractual lives of 8 years. Stock option activity is summarized as follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE
Outstanding options at January 31, 1997	1,121,000	$ 0.18	1,121,000
Options issued	2,040,000	13.61	
Options exercised	(299,000)	0.21	
Options expired and terminated	(138,000)	11.01	
Outstanding options at January 31, 1998	2,724,000	9.68	822,000
Options issued	1,917,000	5.62	
Options exercised	(282,000)	0.16	
Options expired and terminated	(683,000)	10.74	
Outstanding options at January 31, 1999	3,676,000	5.45	642,000
Options issued	1,857,000	3.87	
Options exercised	(433,000)	1.39	
Options expired and terminated	(774,000)	4.99	
Outstanding options at January 31, 2000	4,326,000	$ 5.22	1,045,000

In August 1998, our board agreed to reprice outstanding options to align the option exercise prices more closely with the fair market value of the underlying common stock. A program allowing option holders under the 1997 Stock Incentive Program to exchange higher priced options for the same number of lower priced options was adopted. The new options were issued on August 14, 1998 at $5.1875 per share. The repricing excluded our officers and directors and prohibited employees from exercising these new options for twelve months. Certain QAD officers and directors were issued additional grants under the same plan.

The weighted average remaining contractual life of stock options outstanding as of January 31, 2000 is as follows:

RANGE OF EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER EXERCISABLE	OPTIONS EXERCISABLE WEIGHTED AVERAGE EXERCISE PRICE
$0.12 - $0.19	195,000	0.19	$ 0.16	195,000	$ 0.16
3.00 - 4.99	2,539,000	7.36	3.85	199,000	4.23
5.00 - 9.99	1,111,000	5.98	5.30	464,000	5.20
10.00 - 22.50	481,000	5.85	14.31	187,000	14.35
Total	4,326,000	6.52	$ 5.22	1,045,000	$ 5.73

We apply APB Opinion No. 25 in accounting for QAD's option plans and, accordingly, no compensation cost was recognized as the exercise price of the stock options equaled the fair value at the grant date. The fair value of the options at date of grant was estimated using the Black-Scholes model with the following assumptions:

	JANUARY 31, 2000	1999	1998
Expected life (years)	6.50	6.50	6.00
Interest rate	6.30%	5.50%	5.95%
Volatility	0.79	0.75	0.41
Dividend yield	$0.00	$0.00	$0.00

No compensation expense has been recognized for stock-based incentive compensation plans other than for restricted stock awards. If we had recognized compensation expense for stock-based employee compensation based upon the fair value of options granted, our net income (loss) for the fiscal years 2000, 1999 and 1998 would have been impacted as follows:

2000	AS REPORTED	PRO FORMA
Net loss	$(16,336)	$(23,454)
Basic loss per share	(0.54)	(0.77)
Diluted loss per share	(0.54)	(0.77)

1999	AS REPORTED	PRO FORMA
Net loss	$(35,921)	$(42,756)
Basic loss per share	(1.22)	(1.46)
Diluted loss per share	(1.22)	(1.46)

1998	AS REPORTED	PRO FORMA
Net income	$9,856	$8,201
Basic earnings per share	0.38	0.32
Diluted earnings per share	0.38	0.31

1994 STOCK OWNERSHIP PROGRAM

We established the QAD Inc. 1994 Stock Ownership Program (the "Plan") covering 4,800,000 shares of our common stock. The Plan allows eligible employees to purchase shares of common stock at the fair market value of the common stock by direct cash payment or at 95% of the fair market value through payroll deduction. The Plan also allows for the granting of shares to employees. We have the right, but not the obligation, to repurchase shares at fair value upon the termination of employment. During fiscal year 1998, 215,160 shares were issued under the Plan at an average price of $9.42. No shares were issued under the Plan during fiscal years 2000 or 1999.

During fiscal year 1998, 20,400 restricted shares of common stock were granted. The fair market value of the shares awarded was $194,000. This amount was recorded as unearned compensation-restricted stock, as a separate component of stockholders' equity. Unearned compensation is amortized to expense over the periods that the restrictions lapse, generally one to three years from date of award. Such expense amounted to $1,263,000 for fiscal year 1998, $600,000 of which is included in accrued expense and $663,000 was amortization of compensation-restricted stock as the restricted shares are issued to employees.

During fiscal year 1998, 50,060 shares were granted. The fair value of $431,000 at the grant date was recognized as compensation expense.

1997 STOCK INCENTIVE PROGRAM

We have adopted the 1997 Stock Incentive Program, or Program. The Program consists of seven parts: The first part is the Incentive Stock Option Plan under which incentive stock options may be granted. The second part is the Nonqualified Stock Option Plan under which nonqualified stock options may be granted. The third part is the Restricted Share Plan under which restricted shares of common stock may be granted. During fiscal year 1999, we awarded 20,000 restricted shares under the Plan, of which 6,666 shares vested and 13,334 remained unvested at January 31, 2000. No additional shares were issued under this part of the Plan during fiscal years 2000 or 1998. The fourth part is the Employee Stock Purchase Plan. The Plan allows participating employees to purchase shares of common stock through payroll deductions at 85% of the lower of the beginning or the ending calendar quarter share price. The fifth part is the Non-Employee Director Stock Option Plan under which grants of options to purchase shares of common stock may be made to non-employee directors of QAD. The sixth part is the Stock Appreciation Rights Plan under which SARs (as defined in the plan) may be granted. The seventh part is the Other Stock Rights Plan under which (1) units representing the equivalent shares of common stock may be granted; (2) payments of compensation in the form of shares of common stock may be granted; and (3) rights to receive cash or shares of common stock based on the value of dividends paid with respect to a share of common stock may be granted. The maximum aggregate number of shares of common stock subject to the Program is 8,000,000 shares. The Program lasts 10 years from the date of adoption.

TOTAL COMPENSATION COST RECOGNIZED FOR STOCK-BASED COMPENSATION PLANS

Total compensation cost recognized for stock-based employee compensation awards was as follows:

	JANUARY 31,		
	2000	1999	1998
	(IN THOUSANDS)		
Under performance awards	$ --	$ --	$ 431
Under restricted stock grants, net of cancellations	(240)	329	930
Total	$(240)	$329	$1,361

RECEIVABLE FROM STOCKHOLDERS

In connection with the 1994 Stock Ownership Program, we have guaranteed indebtedness incurred by certain stockholders to purchase shares with cash deposited with a lending institution. These amounts are classified as "Receivable from Stockholders" in the equity section of the Consolidated Balance Sheets.

12. QUARTERLY INFORMATION (UNAUDITED)

	QUARTER ENDED			
	APRIL 30	JULY 31	OCT. 31	JAN. 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
2000				
Total revenue	$53,338	$58,314	$ 56,728	$70,882
Gross profit	27,989	31,896	31,894	40,244
Net income (loss)	(9,943)	(3,969)	(4,509)	2,085
Basic net income (loss) per share	(0.33)	(0.13)	(0.15)	0.07
Diluted net income (loss) per share	(0.33)	(0.13)	(0.15)	0.06
1999				
Total revenue	44,270	47,279	36,435	65,360
Gross profit	32,483	36,540	25,076	40,230
Net loss	(2,287)	(4,431)	(24,340)	(4,863)
Basic net loss per share	(0.08)	(0.15)	(0.83)	(0.16)
Diluted net loss per share	$ (0.08)	$ (0.15)	$ (0.83)	$ (0.16)

13. STOCKHOLDERS' EQUITY

On December 23, 1999, we issued, under a private placement, 2,333,333 shares of our common stock to Recovery Equity Investors II, L.P. for net consideration of $9.6 million. Pursuant to this placement, Jeffrey A. Lipkin, General Partner of Recovery Equity Investors II, L.P., was elected to our board of directors.

In conjunction with this placement, we issued a warrant to purchase 225,000 shares of common stock with an exercise price of $7.50, which are each immediately exercisable for one share of our common stock.

SCHEDULE II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED (CREDITED) TO COSTS AND EXPENSES	(1) DELETIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts and sales adjustments				
Years ended:				
January 31, 2000	$8,024	$ (261)	$(1,473)	$6,290
January 31, 1999	5,510	3,627	(1,113)	8,024
January 31, 1998	3,694	4,370	(2,554)	5,510

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(1) Actual write-offs and sales adjustments.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized, on April 28, 2000.

QAD INC.

By: /s/ KATHLEEN M. FISHER

Kathleen M. Fisher
CHIEF FINANCIAL OFFICER

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

SIGNATURE	TITLE	DATE
/s/ PAMELA M. LOPKER Pamela M. Lopker	Chairman of the Board and President (Principal Executive Officer)	April 28, 2000
/s/ KARL F. LOPKER Karl F. Lopker	Director, Chief Executive Officer	April 28, 2000
/s/ KATHLEEN M. FISHER Kathleen M. Fisher	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 28, 2000
/s/ CHERYL M. SLOMANN Cheryl M. Slomann	Vice President, Corporate Controller, Chief Accounting Officer (Principal Accounting Officer)	April 28, 2000
/s/ A. J. MOYER A. J. Moyer	Director	April 28, 2000
/s/ KOH BOON HWEE Koh Boon Hwee	Director	April 28, 2000
/s/ PETER R. VAN CUYLENBURG Peter R. van Cuylenburg	Director	April 28, 2000
/s/ JEFFREY A. LIPKIN Jeffrey A. Lipkin	Director	April 28, 2000

INDEX OF EXHIBITS

EXHIBIT NUMBER	EXHIBIT TITLE
3.1	Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on May 15, 1997(1)
3.2	Certificate of Amendment of Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State

	on June 19, 1997(1)
3.9	Bylaws of the Registrant(1)
4.1	Specimen Stock Certificate(1)
10.1	QAD Inc. 1994 Stock Ownership Program(1)
10.2	QAD Inc. 1997 Stock Incentive Program(1)
10.3	Form of Indemnification Agreement with Directors and Executive Officers(1)
10.4	Loan and Security Agreement between Greyrock Business Credit, a Division of Nations Credit Commercial Corporation ("GBC") and the Registrant dated July 3, 1996(1)
10.5	Schedule to Loan Agreement between GBC and the Registrant dated July 3, 1996(1)
10.6	Letter Agreement between the Registrant and GBC dated July 3, 1996(1)
10.7	Letter Agreement between the Registrant and GBC dated July 5, 1996(1)
10.8	Letter Agreement between the Registrant and GBC dated July 5, 1996(1)
10.9	Secured Promissory Note in the original principal amount of $4,000,000 made by the Registrant to the order of GBC dated July 3, 1996(1)
10.10	Trademark Security Agreement between GBC and the Registrant dated July 3, 1996(1)
10.11	Security Agreement in Copyrighted Works executed by the Registrant in favor of GBC dated July 3, 1996(1)
10.12	Deed of Trust with respect to real property located in Santa Barbara County, California executed by the Registrant in favor of GBC dated July 3, 1996(1)
10.13	Master License Agreement between the Registrant and Progress Software Corporation dated June 30, 1995(1)+(10.14)
10.14	Lease Agreement between the Registrant and Matco Enterprises, Inc. for Suites I, K and L located at 5464 Carpinteria Ave., Carpinteria, California dated November 30, 1992(1)(10.15)
10.15	First Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites C and H located at 5464 Carpinteria Ave., Carpinteria, California dated September 9, 1993(1)(10.16)
10.16	Second Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite J located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994(1)(10.17)
10.17	Third Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites B and C located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994(1)(10.18)

EXHIBIT NUMBER	EXHIBIT TITLE

10.18	Fourth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite H located at 5464 Carpinteria Ave., Carpinteria, California dated February 15, 1994(1)(10.19)
10.19	Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. or Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994(1)(10.20)
10.20	Sixth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites A, B, D, F and H, and Room A located at 5464 Carpinteria Ave., Carpinteria, California dated October 30, 1996(1)(10.21)
10.21	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993(1)(10.22)
10.22	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993(1)(10.23)
10.23	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993(1)(10.24)
10.24	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993(1)(10.25)
10.25	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993(1)(10.26)
10.26	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993(1)(10.27)
10.27	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)(10.28)
10.28	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)(10.29)
10.29	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)(10.30)
10.30	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995(1)(10.31)
10.31	Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993(1)(10.32)

EXHIBIT NUMBER	EXHIBIT TITLE
10.32	Amendment to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated April 26, 1994(1)(10.33)
10.33	Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995(1)(10.34)
10.34	Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995(1)(10.35)
10.35	Agreement and Plan of Merger between QAD California and the Registrant dated July 8, 1997(1)(10.36)
10.36	Credit Agreement dated as of August 4, 1997 between the Registrant and Bank of America National Trust and Savings Association(2)(10.41)
10.37	Standard Industrial Commercial Multi-Tenant Lease--Modified Net dated as of December 29, 1997 between the Registrant and CITO Corp.(2)(10.42)
10.38	Value Added Reseller Agreement dated as of April 13, 1998 between the Registrant and Paragon Management Systems, Inc.(2)(10.43)
10.39	Lease Agreement between the Registrant and Goodaston Limited for Unit 1 Phase 8 Business Park, The Waterfront Merry Hill, West Midlands, United Kingdom, dated April 30, 1996(2)(10.44)
10.40	Credit Agreement between the Registrant and the First National Bank of Chicago dated April 18, 1999(3)(10.44)
10.41	Related Facility Credit Agreement between the Registrant and The First National Bank of Chicago dated April 8, 1999(3)(10.45)
10.42	Borrower Security Agreement between the Registrant and The First National Bank of Chicago dated April 18, 1999(3)(10.46)
10.43	Second Amendment to Credit Agreement between QAD Inc. and The First National Bank of Chicago (incorporated by reference to exhibit 10.1 to QAD Inc.'s Current Report on Form 8-K filed June 25, 1999)(4)(10.1)
10.44	Eighth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites I, K, L, C, J and Basement Room B located at 5464 Carpinteria Avenue, Carpinteria, California dated February 18, 1999(4)(10.2)
10.45	Related Facility Credit Agreement between the Registrant and The First National Bank of Chicago(4)(10.45)
10.46	Stock Purchase Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999
10.47	Registration Rights Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999
10.48	Stock Purchase Agreement between the Registrant and Enterprise Engines, Inc. dated December 15, 1999

10.49	Non-Competition Agreement between the Registrant and David A. Taylor and Enterprise Engines, Inc. dated December 15, 1999

EXHIBIT NUMBER	EXHIBIT TITLE
10.50	Promissory Note between the Registrant and First Credit Bank dated November 8, 1999
10.51	Deed of Trust between the Registrant and First Credit Bank dated November 8, 1999
10.52	Ninth Amendment to office lease between the Registrant and Matco Enterprises, Inc. for Suites G an E located at 5464 Carpinteria Avenue, Carpinteria, California dated August 23, 1999
21.1	Subsidiaries of the Registrant
23.1	Consent of KPMG LLP
27.1	Financial Data Schedule

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(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441).

(2) Incorporated by reference to the Registrant's Annual Report on 10-K for the year ended January 31, 1999 filed April 30, 1999 (Commission File No. 0-22823).

(3) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 1999 filed June 14, 1999 (Commission No. 0-22823).

(4) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 1999 filed September 14, 1999 (Commission No. 0-22823).

(+) Certain portions of exhibit have been omitted based upon a request for confidential treatment. The omitted portions have been separately filed with the Securities and Exchange Commission.

STOCK PURCHASE AGREEMENT

DATED AS OF DECEMBER 23, 1999

AMONG

QAD INC.
PAMELA M. LOPKER
KARL F. LOPKER
THE LOPKER LIVING TRUST DATED MARCH 23, 1993

AND

RECOVERY EQUITY INVESTORS II, L.P.

STOCK PURCHASE AGREEMENT dated as of December 23, 1999, among RECOVERY EQUITY INVESTORS II, L.P., a Delaware limited partnership (the "PURCHASER"), PAMELA M. LOPKER, KARL F. LOPKER, THE LOPKER LIVING TRUST DATED MARCH 23, 1993, a trust organized under the laws of California (the "TRUST"); Pamela M. Lopker, Karl F. Lopker and the Trust being hereinafter collectively referred to as the "SELLING STOCKHOLDERS"), and QAD INC., a Delaware corporation (the "COMPANY"; the Selling Stockholders and the Company being hereinafter collectively referred to as the "SELLER PARTIES").

WHEREAS, the Purchaser desires to purchase from the Company, and the Company desires to issue and sell to the Purchaser, the number of shares of Common Stock set forth opposite the Company's name in SCHEDULE I (the "ISSUED SHARES");

WHEREAS, the Purchaser desires to purchase from the Trust, and the Trust desires to sell to the Purchaser, the number of shares of Common Stock set forth opposite the Trust's name in SCHEDULE I (hereinafter collectively referred to as the "SELLING STOCKHOLDERS' SHARES");

WHEREAS, Pamela M. Lopker and Karl F. Lopker are the sole beneficiaries and the sole trustees of the Trust;

WHEREAS, in connection with the closing of the purchase and sale of the Issued Shares hereunder, the Company desires to issue to the Purchaser, and the Purchaser desires to accept from the Company, the Warrant; and

WHEREAS, the capitalized terms used and not otherwise defined in the foregoing recitals have the respective meanings set forth in Section 1.1.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

I.1 DEFINITIONS. As used in this Agreement, the following terms shall have the respective meanings set forth below:

"ACTIONS OR PROCEEDINGS" means any action, suit, proceeding, arbitration or Governmental or Regulatory Authority investigation or audit.

"AFFILIATE" means, as applied to any Person, (i) any other Person directly or indirectly controlling, controlled by or under common control with that Person, (ii) any other Person that owns or controls 5% or more of any class of equity securities (including any equity securities issuable upon the exercise of any Option) of that Person or any of its Affiliates, or (iii) any member, 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.

"AGREEMENT" means this Stock Purchase Agreement and the Schedules and Exhibits hereto and the certificates delivered in connection herewith, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the provisions hereof.

"ASSETS AND PROPERTIES" of any Person means all assets and properties of every kind, nature, character and description (whether real, personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including cash, cash equivalents, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property.

"BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the State of New York or California are authorized or obligated to close.

"BUSINESS OR CONDITION OF THE COMPANY" means the business, condition (financial or otherwise), results of operations, prospects, or Assets and Properties of the Company and the Subsidiaries, taken as a whole.

"CLAIM NOTICE" has the meaning ascribed to it in Section 10.2(a).

"CLOSING" means the closing of the transactions contemplated by Section 2.1.

"CLOSING DATE" means the date on which the Closing actually occurs.

"COMMON STOCK" means the common stock, par value $.001 per share, of the Company.

"COMPANY" has the meaning ascribed to it in the introductory paragraph hereto.

"CONTRACT" means any agreement, lease, debenture, note, evidence of Indebtedness, mortgage, indenture, security agreement or other contract or commitment (whether written or oral).

"DISPUTE NOTICE" means any written notice by an Indemnifying

Party pursuant to Section 10.2(c) of a dispute with respect to an Indemnity Notice specifying the nature of and basis for such a dispute.

"DISPUTE PERIOD" means the period ending 30 calendar days following receipt by an Indemnifying Party of an Indemnity Notice.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated by the SEC thereunder.

"FINANCIAL STATEMENT DATE" means October 31, 1999.

"GAAP" means United States generally accepted accounting principles, consistently applied throughout the specified period and all prior comparable periods.

"HOLDBACK AGREEMENT" means the Holdback Agreement, to be dated as of the Closing Date, between the Purchaser and the Selling Stockholders substantially in the form of EXHIBIT A, as the same may be amended, supplemented or otherwise modified from time to time.

"GOVERNMENTAL OR REGULATORY AUTHORITY" means any court, tribunal, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision, any arbitrator or panel of arbitrators, any stock exchange or quotation service, and the NASD.

"INDEBTEDNESS" of any Person means all obligations of such Person (i) for borrowed money, (ii) evidenced by notes, bonds, debentures or similar instruments, (iii) for the deferred purchase price of goods or services (other than trade payables or accruals incurred in the ordinary course of business), (iv) under capital leases, (v) as an account party in respect of letters of credit and similar instruments and (vi) in the nature of guarantees of any obligation described in clauses (i) through (v) above of any other Person.

"INDEMNIFIED PARTY" means any Person claiming indemnification under any provision of Article X.

"INDEMNIFYING PARTY" means any Person against whom a claim for indemnification is being asserted under any provision of Article X.

"INDEMNITY NOTICE" has the meaning ascribed to it in Section 10.2(c).

"INTELLECTUAL PROPERTY" means all patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, brand names, inventions, processes, formulae, copyrights and copyright rights, trade dress, business and product names, logos, slogans, trade secrets, industrial models, designs,

methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

"ISSUED SECURITIES" means, collectively, the Issued Shares and the Warrant.

"ISSUED SHARES" has the meaning ascribed to it in the recitals hereto.

"LAWS" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision or of any Governmental or Regulatory Authority.

"LIABILITIES" means any and all Indebtedness, liabilities and obligations, whether accrued, fixed, absolute, contingent, matured or unmatured, known or unknown or otherwise, including those arising under any Law, Order, Actions or Proceedings of any Governmental or Regulatory Authority and those arising under any Contract, license, arrangement, undertaking or otherwise.

"LIENS" means any mortgage, pledge, assessment, security interest, lease, lien, adverse claim, levy, charge or other encumbrance of any kind, whether voluntary or involuntary (including any conditional sale Contract, title retention Contract or Contract committing to grant any of the foregoing).

"LOSS" means any and all damages, fines, fees, penalties, deficiencies, losses and expenses, including interest, reasonable expenses of investigation, court costs, reasonable fees and expenses of attorneys, accountants and other experts and other expenses associated with litigation or other proceedings or with any claim, default or assessment (such fees and expenses to include all fees and expenses, including the reasonable fees and expenses of attorneys, incurred in connection with (i) the investigation or defense of any Third Party Claims or (ii) asserting or disputing any rights under this Agreement or any Transaction Document against any party hereto or otherwise). As applied to the Purchaser, "Loss" shall also be deemed to include any diminution in the value of the Issued Securities or Selling Stockholders' Shares being acquired by the Purchaser hereunder (or any successor securities).

"NASD" means the National Association of Securities Dealers, Inc.

"OPTION" with respect to any Person means any security, right, subscription, warrant, option, "phantom" stock right or other Contract that gives the right to (i) purchase or otherwise receive or be issued any shares of capital stock of, or other equity interests in, such Person or any security of any kind convertible into or exchangeable or exercisable for any shares of capital stock of, or other equity interests in, such Person or (ii) receive any benefits or rights similar to any rights

enjoyed by or accruing to the holder of shares of capital stock of, or other equity interests in, such Person, including any rights to participate in the equity, income or election of directors, management committee members or officers of such Person.

"ORDER" means any writ, judgment, decree, injunction or similar order of any Governmental or Regulatory Authority (in each case whether preliminary or final).

"PERSON" or "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, Governmental or Regulatory Authority or other entity of any kind.

"PROGRESS" means Progress Software Corporation, a Massachusetts corporation.

"PURCHASE PRICE" means (a) with respect to the Company, the dollar amount set forth opposite the Company's name in SCHEDULE I, and (b) with respect to the Trust, the dollar amount set forth opposite the Trust's name in SCHEDULE I.

"PURCHASED SHARES" means the Issued Shares and the Selling Stockholders' Shares.

"PURCHASER" has the meaning ascribed to it in the introductory paragraph hereto.

"RESOLUTION PERIOD" means the period ending 30 calendar days following receipt by an Indemnified Party of a Dispute Notice.

"REGISTRATION RIGHTS AGREEMENT" means the Registration Rights Agreement, to be dated as of the Closing Date, between the Purchaser and the Company substantially in the form of EXHIBIT B, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof.

"SEC" means the Securities and Exchange Commission.

"SEC DOCUMENT" has the meaning ascribed to it in Section 3.7.

"SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations promulgated by the SEC thereunder.

"SELLER PARTIES" has the meaning ascribed to it in the introductory paragraph hereto.

"SELLING STOCKHOLDERS" has the meaning ascribed to it in the introductory paragraph hereto.

"SELLING STOCKHOLDERS' SHARES" has the meaning ascribed to it in the recitals hereto.

"STOCKHOLDERS' AGREEMENT" means the Stockholders' Agreement, to be dated as of the Closing Date, among the Purchaser and the Seller Parties substantially in the form of EXHIBIT C, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof.

"SUBSIDIARY" means any Person in which the Company, directly or indirectly through one or more Subsidiaries or otherwise, beneficially owns or otherwise holds more than 50% of either the equity interests in, or the voting control of, such Person.

"THIRD PARTY CLAIM" has the meaning ascribed to it in Section 10.2(a).

"THIRD PARTY SOFTWARE" means all computer software used by or on behalf of the Company or its Subsidiaries, as applicable, developed by a third party that was not developed by or on behalf of the Company or its Subsidiaries, as applicable (including source code, object code, comments, user interfaces, menus, buttons and icons and all files, data, manuals, design notes and other items and documentation related thereto), but excluding commercially available shrink-wrapped software.

"TRANSACTION DOCUMENTS" means the Holdback Agreement, the Stockholders' Agreement, the Registration Rights Agreement, the Warrant and any support or other agreements to be entered into by the Purchaser and one or more of the other parties hereto in connection with the transactions contemplated by this Agreement.

"TRUST" has the meaning ascribed to it in the introductory paragraph hereto.

"VCOC" has the meaning ascribed to it in Section 6.3.

"WARRANT" means the Warrant, to be dated as of the Closing Date, to be issued from the Company to the Purchaser, substantially in the form of EXHIBIT D, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the provisions thereof.

"WARRANT SHARES" means, as of any time of determination, the shares of Common Stock (or any successor securities) which are then issuable under the Warrant upon the exercise thereof in full.

"YEAR 2000 COMPLIANT" means, with respect to any of the services, products, operations or businesses of the Company or its Subsidiaries as demonstrated through appropriate testing of the same, design and performance capabilities (including the ability of services and products distributed by the

Company or its Subsidiaries to recognize the century and to manage and manipulate data involving dates, including single century and multi-century formulas and date

values, without resulting in the generation of incorrect values involving such dates or causing any abnormal endings) such that prior to, during, and after the calendar year 2000, none of the assets, services, products or operations of the Company or its Subsidiaries will malfunction, produce errors, cause or suffer premature cancellation or expiration of contractual rights, cause or suffer deletion of data or invalid or incorrect results, or abnormally cease to function or exhibit any other problems in connection with (i) the year 2000 (and all subsequent years) as distinct from 1900s years, (ii) the date February 29, 2000, and all subsequent leap years, (iii) the date September 9, 1999, or (iv) any other calendar date (such failures and other problems, the "YEAR 2000 PROBLEM").

"YEAR 2000 PLAN" has the meaning ascribed to it in Section 3.16.

"YEAR 2000 PROBLEM" has the meaning ascribed to it in this Section 1.1.

I.2 CERTAIN CONVENTIONS. Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender, (ii) words using the singular or plural number also include the plural or singular number, respectively, (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement, (iv) the terms "Article", "Section", "Schedule" and "Exhibit" refer to the specified Article or Section of, or the specified Schedule or Exhibit to, this Agreement, (v) the words "include", "includes" and "including" are deemed to be followed by the phrase "without limitation", and (vi) the phrases "ordinary course of business" and "ordinary course of business consistent with past practice" refer to the business and practice of the Company or a Subsidiary. All accounting terms used herein and not expressly defined herein shall have the respective meanings given to them under GAAP.

ARTICLE II

SALE OF SHARES; CLOSING

II.1 PURCHASE AND SALE.

(a) At the Closing, on the terms and subject to the conditions of this Agreement, the Company shall issue and sell to the Purchaser, and the Purchaser shall purchase from the Company, the Issued Shares, free and clear of all Liens, for an aggregate purchase price (payable in cash in the manner provided in Section 2.2) equal to the Purchase Price with respect to the Company.

(b) At the Closing, on the terms and subject to the conditions of this Agreement, the Trust shall sell to the Purchaser, and the Purchaser shall purchase from the Trust, the Selling Stockholders' Shares, free and clear of all Liens, for an aggregate purchase price (payable in cash in the manner provided in Section 2.2) equal to the Purchase Price with respect to the Trust.

II.2 CLOSING. The Closing will take place at such location as the Purchaser and the Seller Parties mutually agree on the first Business Day as of which each of the conditions precedent set forth in Article VII and Article VIII shall have been satisfied or waived as provided therein, or on such other date as the Purchaser and the Seller Parties shall mutually agree. At the

Closing, the Purchaser shall pay the Purchase Price with respect to the Company or the Trust (as applicable) by wire transfer of immediately available funds to the account specified by the Company or the Trust (as applicable) by written notice delivered to the Purchaser at least two Business Days before the Closing Date. Simultaneously, (a) the Company shall deliver to the Purchaser (i) one or more stock certificates, registered in the name of the Purchaser, representing the Issued Shares and (ii) the Warrant, issued in the name of the Purchaser, and (b) the Trust shall deliver, or cause to be delivered, to the Purchaser one or more stock certificates representing the Selling Stockholders' Shares, together with all necessary instruments of transfer, all in form and substance reasonably satisfactory to the Purchaser. At the Closing, there shall also be delivered to the Seller Parties and the Purchaser the opinions, certificates and other Contracts, documents and instruments to be delivered under Articles VII and VIII.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Purchaser that the statements contained in this Article III are true and correct as of the date of this Agreement and will be true and correct as of the Closing Date (except to the extent any such statement is expressly made as of a specific date, in which case such statement will be true and correct as of such date):

III.1 ORGANIZATION OF THE COMPANY. The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware, and is duly qualified, licensed or admitted to do business and in good standing in those jurisdictions in which the ownership, use or leasing of its Assets and Properties or the conduct or nature of its business makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed, admitted or in good standing which will not, individually or in the aggregate, have a material adverse effect on the Business or Condition of the Company.

III.2 POWER AND AUTHORITY. The Company has the requisite power and authority to execute and deliver this Agreement and the Transaction Documents to which it is a party, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Company of this Agreement and the Transaction Documents to which it is a party, the performance by the Company of its obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action on the part of the board of directors of the Company, which action is the only action necessary to authorize the execution,

delivery and performance by the Company of this Agreement and the Transaction Documents to which it is a party. This Agreement has been duly and validly executed and delivered by the Company and (assuming the due and valid authorization, execution and delivery hereof by the Selling Stockholders and the Purchaser) constitutes, and upon the execution and delivery by the Company of each Transaction Document to which it is a party (assuming the due and valid authorization, execution and delivery thereof by the other parties thereto, if any) each such Transaction Document will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except, in each case, as the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

III.3 CAPITAL STOCK. As of the date hereof and as of the Closing Date immediately before giving effect to the Closing, the authorized capital stock of the Company consists of 150,000,000 shares of Common Stock and 5,000,000 shares of preferred stock, par value $.001 per share. As of the date hereof and as of the Closing Date, immediately before giving effect to the Closing, 30,223,361 shares of Common Stock are outstanding, all of which shares are duly authorized, fully paid and nonassessable and have been validly issued

in compliance with all applicable federal and, to the knowledge of the Company, state securities laws. No shares of Common Stock are held as treasury stock. No other shares of capital stock of the Company have been issued or are outstanding. Except for the Warrant or as disclosed in SCHEDULE 3.3(a) , there are no outstanding Options or agreements, arrangements or understandings to issue Options with respect to the Company, and there are no preemptive rights or agreements, arrangements or understandings to issue preemptive rights with respect to the issuance or sale of shares of capital stock or other equity interests in the Company. On the date hereof, the Company has delivered to the Purchaser, in writing, a true and complete description of the nature, holder, exercise price and other material terms of each outstanding Option of the Company, in each case as of the date hereof. On the Closing Date, the delivery to the Purchaser of the certificate or certificates representing the Issued Shares will vest in the Purchaser good and valid title to the Issued Shares, free and clear of all Liens, and the Issued Shares will have been duly authorized, validly issued, fully paid and nonassessable. On the Closing Date, the delivery to the Purchaser of the Warrant will vest in the Purchaser good and valid title to the Warrant, free and clear of all Liens. The Company and its board of directors and stockholders have taken all actions necessary to reserve the full number of shares of Common Stock issuable upon exercise of the Warrant. The shares of Common Stock issuable upon exercise of the Warrant, when issued upon any exercise thereof, will be duly authorized, validly issued, fully paid and nonassessable. Except as set forth herein or in SCHEDULE 3.3(b), none of the execution, delivery or performance by the Company of this Agreement or the Transaction Documents to which it is a party, the issuance of the Issued Securities as contemplated hereby, the sale of the Selling Stockholders' Shares as contemplated hereby, the issuance of shares of Common Stock upon any exercise of the Warrant, the performance by the Company of its obligations under the Transaction Documents to which it is a party or the exercise by any holder of Issued Securities of the rights granted to such holder under the Transaction Documents to which the Company is a party, will give

rise to or result in (with or without notice, lapse of time or both) any antidilution adjustment, acceleration of vesting or other change under or to any Option. Other than the Transaction Documents, the Company is not a party or subject to any agreement or understanding and, to the knowledge of the Company, there is no agreement or understanding between or among Persons which relates to the voting or giving of written consents or nominating directors, with respect to the Company, any of its Subsidiaries or any of its or their respective securities.

III.4 SUBSIDIARIES. Each Subsidiary is a corporation duly organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation and has full corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its Assets and Properties. Each Subsidiary is duly qualified, licensed or admitted to do business and in good standing in those jurisdictions in which the ownership, use or leasing of such Subsidiary's Assets and Properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed, admitted or in good standing which will not, individually or in the aggregate, have a material adverse effect on the Business or Condition of the Company. All of the outstanding shares of capital stock of each Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable. Except as disclosed in SCHEDULE 3.4(a), all of the outstanding shares of capital stock of each Subsidiary are owned, beneficially and of record, by the Company or a Subsidiary that is wholly owned by the Company, free and clear of all Liens. There are no outstanding Options with respect to any Subsidiary and no agreements, arrangements or understandings to issue Options with respect to any Subsidiary, and there are no preemptive rights or agreements, arrangements or understandings to issue preemptive rights with respect to the issuance or sale of capital stock of or other equity interests in any Company. Except for the capital stock of the Subsidiaries, or as disclosed in SCHEDULE 3.4(b), neither the Company nor any Subsidiary holds any equity, partnership, limited liability company, joint venture or other interest in any Person.

III.5 NO CONFLICTS. The execution and delivery by the Company of this Agreement and the Transaction Documents to which it is a party, the

performance by the Company of its obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby, does not and will not: (a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the Company's certificate of incorporation or by-laws; (b) conflict with or result in a violation or breach of any term or provision of any Law or Order applicable to the Company or any Subsidiary or any of their respective Assets and Properties; or (c) except as set forth in SCHEDULE 3.5, (i) conflict with or result in a violation or breach of, (ii) constitute (with or without notice or lapse of time or both) a default under, (iii) require the Company or any Subsidiary to obtain any consent, approval or action of, make any filing with or give any notice to any Person as a result or under the terms of, (iv) result in any termination, cancellation, acceleration or modification of, or give to any Person any right of termination, cancellation, acceleration or modification in or with respect to, (v) result in or give to any Person any additional rights or entitlement to increased, additional, accelerated or guaranteed payments under, (vi) result in the creation of any new, additional or increased liability of the Company or any Subsidiary under, or

(vii) result in the creation or imposition of any Lien upon the Company or any Subsidiary or any of their respective Assets and Properties under, any Contract to which the Company or any Subsidiary is a party or by which any of their respective Assets and Properties is bound.

III.6 GOVERNMENTAL APPROVALS AND FILINGS. Except as set forth in SCHEDULE 3.6, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of the Company is required in connection with the execution, delivery and performance of this Agreement or the Transaction Documents to which it is a party or the consummation of the transactions contemplated hereby or thereby.

III.7 SEC DOCUMENTS; FINANCIAL STATEMENTS; PROJECTIONS.

(a) Each report, schedule, form, statement and other document required to be filed by the Company with the SEC (each an "SEC DOCUMENT", and collectively, the "SEC DOCUMENTS") has been so filed. As of its filing date, each SEC Document, and any SEC Documents that will be filed prior to or after the Closing, complied or will comply in all material respects with the applicable requirements of the Securities Act and the Exchange Act. None of the SEC Documents, except to the extent that information contained therein has been revised or superseded by an SEC Document subsequently filed with the SEC, contains or will contain any untrue statement of a material fact or omits, omitted or will omit to state a material fact (x) necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or (y) required to be stated therein or necessary to make the statements therein not misleading. The financial statements of the Company and its Subsidiaries included in the SEC Documents comply in all material respects with the applicable requirements under the Securities Act and the Exchange Act and any other published rules and regulations of the SEC with respect to accounting requirements, have been prepared in accordance with GAAP (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of the Company and its Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments which will not have or reflect a material adverse effect on the Business or Condition of the Company).

(b) The Confidential Offering Memorandum submitted to the Purchaser and the Company's one-year projections delivered to the Purchaser and dated December 10, 1999 set forth (i) the Company's business plan and (ii) the most recently prepared five-year and one-year financial internal projections for the Company and its Subsidiaries. Such Memorandum and projections set forth the Company's present intentions regarding its business plan and financial strategies. The assumptions upon which such projections are based are, in the Company's opinion, reasonable, and to the best of the Company's knowledge, are mathematically correct based upon those assumptions.

III.8 ABSENCE OF CHANGES. Since the Financial Statement Date,

except as set forth in SCHEDULE 3.8 or as disclosed in the SEC Documents filed prior to the date hereof, there has not

been any event or development which, individually or together with other such events, did have or could reasonably be expected to have a material adverse effect on the Business or Condition of the Company. None of the other representations or warranties in this Agreement shall be deemed to limit the foregoing.

III.9 LEGAL PROCEEDINGS. Except as set forth in SCHEDULE 3.9, there are no Actions or Proceedings pending or, to the knowledge of the Company threatened overtly against, relating to or affecting any of the Company or any Subsidiary or any of their respective Assets and Properties, which (i) could reasonably be expected to result in the issuance of an Order restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or the Transaction Documents to which the Company is a party, (ii) have been brought by end users of products or services provided by the Company or any Subsidiary in connection with the performance of such products or services, or (iii) if determined adversely to the Company or such Subsidiary, could reasonably be expected to, individually or in the aggregate with other such Actions or Proceedings, have a material adverse effect on the Business or Condition of the Company.

III.10 COMPLIANCE WITH LAWS; ANTI-TAKEOVER PLANS.

(a) Neither the Company nor any Subsidiary is in violation of any Laws or any Orders of any Governmental or Regulatory Authority applicable to the Company or such Subsidiary, or by which it is bound, except for violations the existence of which would not, individually or in the aggregate, have a material adverse effect on the Business or Condition of the Company.

(b) Except as expressly set forth in the Company's certificate of incorporation and by-laws (true and correct copies of which are incorporated by reference in the Company's Form 10-K for the fiscal year ended January 31, 1999, as filed with the SEC), there are no rights plans, "poison pill" plans, voting trusts or similar arrangements, "golden parachute" or similar plans or provisions, or other arrangements or Contracts relating to the Company or its capital stock that are intended to increase the cost or difficulty of effecting a change of control of the Company (collectively, "ANTI-TAKEOVER PLANS"). Neither the Company nor its board of directors has any present intention of adopting any Anti-Takeover Plan. Notwithstanding the foregoing, the Company intends to enter into employee retention agreements with certain key executives.

III.11 OTHER NEGOTIATIONS; BROKERS. None of the Company, any Subsidiary or any of their respective Affiliates (nor any investment banker, financial advisor, attorney, accountant or other Person retained by or acting for or on behalf of the Company, any Subsidiary or any such Affiliate) (i) has entered into any Contract that conflicts with any of the transactions contemplated by this Agreement or the Transaction Documents to which the Company is a party or (ii) has entered into any Contract or had any discussions with any third party regarding any transaction involving the Company or any Subsidiary which could result in the Purchaser, any of its general or limited partners, or any officer, director, employee, partner, agent or Affiliate of the Purchaser or any such

partner being subject to any claim for liability to said third party in connection with this Agreement or the Transaction Documents to which the Company is a party or the consummation of any of the transactions contemplated hereby or thereby. Except for Houlihan Lokey Howard & Zukin Capital, whose fees and expenses are being paid by the Company, no agent,

broker, finder, investment banker, financial advisor or other similar Person will be entitled to any fee, commission or other compensation in connection with any of the transactions contemplated by this Agreement or the Transaction Documents to which the Company is a party on the basis of any act or statement made or alleged to have been made by the Company, any Subsidiary, any of their respective Affiliates, or any investment banker, financial advisor, attorney, accountant or other Person retained by or acting for or on behalf of the Company, any Subsidiary, or any such Affiliate.

III.12 EXEMPTION FROM REGISTRATION; RESTRICTIONS ON OFFER AND SALE OF SAME OR SIMILAR SECURITIES. Assuming the representations and warranties of the Purchaser set forth in Section 5.3 are true and correct in all material respects, the offer and sale of the Issued Shares made to the Purchaser pursuant to this Agreement and the issuance of the Warrant to the Purchaser pursuant to this Agreement are in each case exempt from the registration requirements of the Securities Act. Neither the Company nor any Person authorized to act on its behalf has, in connection with the offering of the Issued Shares or the issuance of the Warrant, engaged in (i) any form of general solicitation or general advertising (as those terms are used within the meaning of Rule 502(c) under the Securities Act), (ii) any action involving a public offering within the meaning of Section 4(2) of the Securities Act, or (iii) any action that would require the registration under the Securities Act of the (x) offering and sale of any Issued Shares pursuant to this Agreement or (y) the issuance of the Warrant pursuant to this Agreement, or that would violate applicable state securities or "blue sky" laws. Neither the Company nor any Person authorized to act on its behalf has made, directly or indirectly, any offer or sale of any Issued Securities or of securities of the same or a similar class as any Issued Securities that could cause any offer, sale or issuance of any Issued Securities contemplated hereby to fail to be entitled to exemption from the registration requirements of the Securities Act. As used herein, the terms "offer" and "sale" have the meanings specified in Section 2(3) of the Securities Act.

III.13 NO UNDISCLOSED LIABILITIES. Except as reflected or reserved against in the Company's unaudited consolidated balance sheet as set forth in the Company's Quarterly Report, for the quarter ended October 31, 1999, filed with the SEC on Form 10-Q (or in the notes thereto) or as disclosed in SCHEDULE 3.13, there are no Liabilities of, relating to or affecting the Company or any of its Subsidiaries or any of their respective Assets and Properties, other than Liabilities incurred in the ordinary course of business consistent with past practice since the Financial Statement Date in accordance with the provisions of this Agreement and which (a) in the aggregate, could not reasonably be expected to have a material adverse effect on the Business or Condition of the Company and (b) to the knowledge of the Company or any Subsidiary, are not for tort or for breach of contract.

III.14 AFFILIATE TRANSACTIONS. Except as disclosed in SCHEDULE 3.14 and except as between Company and the Subsidiaries, (i) there are no Liabilities owed to the Company or any Subsidiary by any Selling Stockholder, any Affiliate of the Company or any Affiliate of any Selling Stockholder, (ii) there are no Liabilities owed by the Company or any Subsidiary to any Selling Stockholder, any Affiliate of the Company or any Affiliate of any Selling Stockholder, (iii) none of the Selling Stockholders nor any of their respective Affiliates, nor any other Affiliate of the Company, provides or causes to be provided any Assets and Properties, services or facilities to the Company or any Subsidiary, and (iv) neither the Company nor any Subsidiary provides, or causes to be provided, any Assets and Properties, services or facilities to any Selling Stockholder or any Affiliate thereof or to any other Affiliate of the Company.

III.15 SUBSTANTIAL CUSTOMERS AND SUPPLIERS; RELATED MATTERS.

(a) Prior to the date hereof, the Company has delivered to the Purchaser a true and complete list of the ten (10) largest customers of the Company and its Subsidiaries, collectively, on the basis of revenues for goods sold or services provided for the twelve months ended October 31, 1999. Such customers, in the aggregate, accounted for less than 15% of the consolidated gross revenues of the Company and the Subsidiaries for such twelve-month period. To the knowledge of the Company or any Subsidiary, no such customer is

threatened with bankruptcy or insolvency. To the knowledge of the Company or any Subsidiary, no customer of the Company or any Subsidiary, as of the date hereof, intends to discontinue or alter the prices or terms of, or substantially diminish, its relationship with the Company or any Subsidiary except where such discontinuation, alteration or diminution has not had, and is not reasonably likely to have, individually or in the aggregate, a material adverse effect on the Business or Condition of the Company. To the knowledge of the Company, there is no reason to believe that the Company's historical reserves with respect to sales allowances are inadequate to cover such allowances.

(b) Other than Progress, there is no material supplier of goods or services to the Company which the Company would be unable to replace on a timely basis with a comparable supplier on comparable terms. Progress has not ceased or materially reduced its provision of products and services to the Company or any of its Subsidiaries since the Financial Statement Date nor, to the knowledge of the Company or any Subsidiary, has threatened to cease or materially reduce such provision of products and services after the date hereof. To the knowledge of the Company or any Subsidiary, Progress is not threatened with bankruptcy or insolvency.

(c) The Company and it Subsidiaries enjoy normal commercial relationships with their selling partners and distributors taken as a whole.

(d) The Company has delivered to the Purchaser a current version of its sales prospect report, which sets forth an estimate of the weighted probability of sales by the Company or a Subsidiary to the extent that likely specific prospects have been identified. The Company believes that the assumptions upon which such report has been prepared are reasonable.

III.16 YEAR 2000. The Company and its Subsidiaries have (i) initiated a review and assessment of the business operations of Company and its Subsidiaries (including recommended products and services provided to customers and those areas affected by suppliers and vendors) that could reasonably be affected by the Year 2000 Problem, (ii) developed a comprehensive plan, as disclosed in the SEC Documents (the "YEAR 2000 PLAN"), to address the Year 2000 Problem, and (iii) implemented and complied with (including dates by which steps and actions are to be taken and performed by) the Year 2000 Plan in accordance with the terms thereof. The Year 2000 Plan includes all appropriate, necessary and timely steps, actions and plans to make the Company and its Subsidiaries (including all recommended products and services provided to customers) Year 2000 Compliant in all material respects in accordance with the methods and the time frames set forth therein. As of the date hereof, there are no material issues or events that prevent the Company and its Subsidiaries from fully addressing the Year 2000 Problem consistent with the terms of the Year 2000 Plan. All Third Party Software and all hardware used by the Company or its Subsidiaries has been represented by the providers thereof to be Year 2000 Compliant for the intended uses and purposes of such Third Party Software and such hardware. Provided that the relevant customer uses a recommended version of the Company's or a Subsidiary's product and complies with the applicable software product description concerning date management functionality, each of the products furnished by the Company or a Subsidiary to any customer thereof (whether before or after the date hereof) will be Year 2000 Compliant in all material respects.

III.17 HOLDING COMPANY ACT AND INVESTMENT COMPANY ACT STATUS. Neither the Company nor any Subsidiary is a "holding company" or a "public utility company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended. Neither the Company nor any Subsidiary is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

III.18 NASD MATTERS. The Common Stock is listed on the NASDAQ National Market, and the listing agreement between the NASD and the Company with respect thereto is in full force and effect. The Purchased Shares will be approved for listing on the NASDAQ National Market upon the approval by the NASD of the Company's listing application for additional shares filed pursuant to the terms of Section 6.4.

III.19 INTELLECTUAL PROPERTY.

(a) To the knowledge of the Company, the Company and the Subsidiaries either own or have a valid and bending license to use each item of Intellectual Property that is material to the conduct of their business, taken as a whole.

(b) The Company has shipped a beta version of its eQ software to two customers, and each customer continues its participation in the beta tests.

III.20 BANK ONE CREDIT FACILITIES. Neither the Company nor any Subsidiary is or has received any notice that it is currently in violation or breach of or default under any covenant or other provision of any Contract relating to the Company's credit facilities with Banc One. The Company has no presently active request from Banc One with respect to the availability formula or total amount of such facilities.

III.21 DISCLOSURE. No representation or warranty on the part of the Company contained in this Agreement, and no statement contained in any schedule or in any certificate, list or other writing furnished to the Purchaser pursuant to any provision of this Agreement, including pursuant to Article VII, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein or therein, in the light of the circumstances under which they were made, not misleading.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE SELLING STOCKHOLDERS

The Selling Stockholders hereby jointly and severally represent and warrant to the Purchaser that the statements contained in this Article IV are true and correct as of the date of this Agreement and will be true and correct as of the Closing Date (except to the extent any such statement is expressly made as of a specific date, in which case such statement will be true and correct as of such date):

IV.1 POWER AND AUTHORITY. The Trust has been duly formed and is validly existing under the laws of the State of California. Each Selling Stockholder has the requisite power and authority and legal capacity to execute and deliver this Agreement and the Transaction Documents to which it is a party, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Trust of this Agreement and the Transaction Documents to which it is a party, the performance by the Trust of its obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary action on the part of the trustees and beneficiaries of the Trust, which action is the only action necessary to authorize the execution, delivery and performance by the Trust of this Agreement and the Transaction Documents to which it is a party. This Agreement has been duly and validly executed and delivered by each Selling Stockholder and (assuming the due and valid authorization, execution and delivery hereof by the Company and the Purchaser) constitutes, and upon the execution and delivery by each Selling Stockholder of the Transaction Documents to which it is a party (assuming the due and valid authorization, execution and delivery thereof by the Company (of the Transaction Documents to which it is a party) and the Purchaser), each such Transaction Document will constitute, a legal, valid and binding obligation of such Selling Stockholder enforceable against such Selling Stockholder in accordance with its terms, except, in each case, as the enforceability thereof may be limited by

bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

IV.2 OWNERSHIP OF THE SELLING STOCKHOLDERS' SHARES.

(a) The Trust owns, beneficially and of record and free and clear of all Liens, the Selling Stockholders' Shares. Other than the Transaction Documents to which he or she is a party, none of the Selling Stockholders is a party or subject to any agreement or understanding with respect to the Selling Stockholders' Shares and, to the knowledge of the Selling Stockholders, there is no agreement or understanding between or among any Persons which relates to the voting or giving of written consents or nominating directors with respect to the Company, any of its Subsidiaries or any of their respective securities.

(b) At the Closing, the delivery to the Purchaser of the certificate or certificates representing the Selling Stockholders' Shares will vest in the Purchaser good and valid title to the Selling Stockholders' Shares, free and clear of all Liens.

(c) As of the date hereof, the Trust owns, beneficially and of record, 18,181,706 shares of Common Stock. As of the Closing Date, after giving effect to the Closing, the Trust will own, beneficially and of record, 17,737,261 shares of Common Stock.

IV.3 NO CONFLICTS. The execution and delivery by each of the Selling Stockholders of this Agreement and the Transaction Documents to which it is a party, the performance by each of the Selling Stockholders of its respective obligations hereunder and thereunder, and the consummation of the transactions contemplated hereby and thereby, does not and will not: (a) conflict with or result in a violation or breach of any of the terms, provisions or conditions of the constitutive documents of the Trust; (b) conflict with or result in a violation or breach of any term or provision of any Law or Order applicable to any of the Selling Stockholders or any of their respective Assets and Properties; or (c) except as set forth in SCHEDULE 4.3, (i) conflict with or result in a violation or breach of, (ii) constitute (with or without notice or lapse of time or both) a default under, (iii) require any of the Selling Stockholders to obtain any consent, approval or action of, make any filing with or give any notice to any Person as a result or under the terms of, (iv) result in any termination, cancellation, acceleration or modification of, or give to any Person any right of termination, cancellation, acceleration or modification in or with respect to, (v) result in or give to any Person any additional rights or entitlement to increased, additional, accelerated or guaranteed payments under, (vi) result in the creation of any new, additional or increased liability of any of the Selling Stockholders under, or (vii) result in the creation or imposition of any Lien upon the Selling Stockholders' Shares or any other assets of any Selling Stockholder under, any Contract to which any of the Selling Stockholders is a party or by which any of their respective Assets and Properties is bound.

IV.4 GOVERNMENTAL APPROVALS AND FILINGS. No consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of any Selling Stockholder is required in connection with the execution, delivery and performance of this Agreement or the Transaction Documents to which any Selling Stockholder is a party or the consummation of the transactions contemplated hereby or thereby.

IV.5 OTHER NEGOTIATIONS; BROKERS. None of the Selling Stockholders or any of their respective Affiliates (nor any investment banker, financial advisor, attorney, accountant or other Person retained by or acting for or on behalf of any of the Selling Stockholders or any such Affiliate) (i) has entered into any Contract that conflicts with any of the transactions contemplated by this Agreement or the Transaction Documents to which any Selling Stockholder is a party or (ii) has entered into any Contract or had any discussions with any third party regarding any transaction involving the Company, any Subsidiary or any of the Selling Stockholders which could result in the Purchaser, any of its general or limited partners, or any officer, director,

employee, partner, agent or Affiliate of the Purchaser or any such partner being subject to any claim for liability to said third party in connection with this Agreement or the Transaction Documents to which any Selling Stockholder is a party or the consummation of any of the transactions contemplated hereby or thereby. No agent, broker, finder, investment banker, financial advisor or other similar Person will be entitled to any fee, commission or other compensation in connection with any of the transactions contemplated by this Agreement or the Transaction Documents to which any Selling Stockholder is a party on the basis of any act or statement made or alleged to have been made by any of the Selling Stockholders, any of their respective Affiliates, or any investment banker, financial advisor, attorney, accountant or other Person retained by or acting for or on behalf of any of the Selling Stockholders or any such Affiliate.

IV.6 EXEMPTION FROM REGISTRATION; RESTRICTIONS ON OFFER AND SALE OF SAME OR SIMILAR SECURITIES. Assuming the representations and warranties of the Purchaser set forth in Section 5.3 are true and correct in all material respects, the offer and sale of the Selling Stockholders' Shares made to the Purchaser pursuant to this Agreement is exempt from the registration requirements of the Securities Act. None of the Selling Stockholders nor any Person authorized to act on behalf of any of them has, in connection with the offering of the Selling Stockholders' Shares, engaged in (i) any form of general solicitation or general advertising (as those terms are used within the meaning of Rule 502(c) under the Securities Act), or (ii) any other action that would require the registration under the Securities Act of the sale of any Selling Stockholders' Shares pursuant to this Agreement or that would violate applicable state securities or "blue sky" laws. None of the Selling Stockholders nor any Person authorized to act on their behalf has made, directly or indirectly, any offer or sale of any Selling Stockholders' Shares or of securities of the same or a similar class as any Selling Stockholders' Shares that could cause any offer or sale of any Selling Stockholders' Shares contemplated hereby to fail to be entitled to exemption from the registration requirements of the Securities Act. As used herein, the terms "offer" and "sale" have the meanings specified in Section 2(3) of the Securities Act.

IV.7 LEGAL PROCEEDINGS. There are no Actions or Proceedings pending or, to the knowledge of the Purchaser, overtly threatened against, relating to or affecting the Purchaser which could reasonably be expected to result in the issuance of an Order restraining, enjoining or otherwise prohibiting or making illegal the consummation by the Purchaser of any of the transactions contemplated by this Agreement or any of the Transaction Documents to which the Purchaser is a party.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Seller Parties that the statements contained in this Article V are true and correct as of the date of this Agreement and will be true and correct as of the Closing Date (except to the extent any such statement is expressly made as of a specific date, in which case such statement will be true and correct as of such date):

V.1 ORGANIZATION; POWER AND AUTHORITY. The Purchaser is a limited partnership duly organized, validly existing and in good standing under the Laws of the State of Delaware. The Purchaser has the requisite partnership power and authority to execute and deliver this Agreement and the Transaction Documents to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by the Purchaser of this Agreement and the Transaction Documents to which it is a party, the performance by the Purchaser of its obligations hereunder and thereunder, have been duly and validly authorized by all requisite partnership action on the part of the Purchaser. This Agreement has been duly and validly executed and delivered by the Purchaser and (assuming the due and valid authorization, execution and delivery hereof by each of the Seller Parties) constitutes, and upon the execution and delivery by the Purchaser of the Transaction Documents to which it is a party (assuming the due and valid authorization, execution and delivery thereof by each of the

Seller Parties that is a party thereto) each such Transaction Document will constitute, a legal, valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with its terms, except in each case as the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

V.2 NO CONFLICTS. The execution, delivery and performance by the Purchaser of this Agreement, and the consummation by the Purchaser of the transactions contemplated hereby, will not conflict with, or constitute a default under, any agreement, indenture or instrument to which the Purchaser is a party, or result in a violation of (a) the Purchaser's constitutive documents (and the purchase of the Purchased Shares is permitted under such constitutive documents) or (b) any Order of any Governmental or Regulatory Authority having jurisdiction over the Purchaser or any of its properties. Except for such filings as may be required by the Exchange Act, no consent,

approval or action of, or filing or registration with, any Governmental or Regulatory Authority is required on the part of the Purchaser for its execution, delivery and performance of this Agreement.

V.3 ACQUISITION FOR INVESTMENT. The Purchased Shares and the Warrant will be acquired by the Purchaser for its own account for the purpose of investment and not with a view to the resale or distribution of all or any part of the Purchased Shares or the Warrant in violation of the Securities Act, it being understood that the right to dispose of the Purchased Shares and the Warrant shall be entirely within the discretion of the Purchaser. The Purchaser is an "accredited investor" (as such term is defined in Rule 501(a) of Regulation D under the Securities Act). The Purchaser has such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of its acquisition of the Purchased Shares and the Warrant pursuant to this Agreement and is able to bear the economic risk of such acquisition (including a complete loss of its investment). The Purchaser understands that the Purchased Shares and the Warrant being acquired by it hereunder have not been registered under the Securities Act or any state securities laws in reliance on exemptions from the registration requirements of the Securities Act and such state securities laws, which depend upon, among other things, the accuracy of the representations of the Purchaser set forth in this Section 5.3.

V.4 BROKERS. No agent, broker, finder, investment banker, financial advisor or other similar Person will be entitled to any fee, commission or other compensation in connection with any of the transactions contemplated by this Agreement on the basis of any act or statement made by the Purchaser.

ARTICLE VI

COVENANTS OF THE SELLER PARTIES

Each of the Seller Parties covenants and agrees with the Purchaser that, at all times from and after the date hereof and until the Closing and, with respect to any covenant or agreement by its terms to be performed in whole or in part after the Closing, for the period specified herein or, if no period is specified herein, indefinitely, such Seller Party will comply with all the covenants and provisions contained in this Article VI that are applicable to it, except to the extent that the Purchaser may otherwise consent in writing.

VI.1 REGULATORY AND OTHER APPROVALS. Each of the Seller Parties shall, and the Company shall cause each of the Company's Subsidiaries to, (a) take all necessary or desirable steps and proceed diligently and in good faith and use its best efforts, as promptly as practicable, to obtain all consents, approvals or actions of, to make all filings with and to give all notices to, Governmental or Regulatory Authorities and other Persons required on its part to consummate the transactions contemplated by this Agreement and the Transaction Documents, and (b) provide such other information and communications

to such Governmental or Regulatory Authority or other Persons

as the Purchaser or any such Governmental or Regulatory Authority or other Person may reasonably request and (c) cooperate with the Purchaser as promptly as practicable in obtaining all consents, approvals or actions of, making all filings with and giving all notices to, Governmental or Regulatory Authorities and other Persons required on the part of the Purchaser to consummate the transactions contemplated by this Agreement and the Transaction Documents. Each of the Seller Parties shall provide prompt notification to the Purchaser when any such consent, approval, action, filing or notice on its part (and, in the case of the Company, on a Subsidiary's part) referred to in clause (a) above is (or is caused to be) obtained, taken, made or given, as applicable, and will advise the Purchaser of any communications (and, unless precluded by Law, provide the Purchaser with copies of any such communications that are in writing) with any Governmental or Regulatory Authority regarding any of the transactions contemplated by this Agreement or the Transaction Documents.

VI.2 USE OF PROCEEDS. The Company shall use the proceeds from the sale of the Issued Shares for general corporate purposes.

VI.3 VENTURE CAPITAL OPERATING COMPANY STATUS. Without limiting any other right contained herein, the Purchaser shall have the right to consult with and advise the management of the Company and to receive all materials provided to members of the board of directors of the Company so long as may be required to enable the Purchaser to qualify as a "venture capital operating company" within the meaning of Section 2510.3-101 of the plan asset regulations promulgated by the United States Department of Labor (a "VCOC"). In addition, in the event that (i) at any time there is no person designated by the Purchaser on the Company's board of directors, or (ii) the United States Department of Labor through formal or informal rules, regulations or interpretations provides, or it is otherwise established through governmental or court action, that such representation does not constitute the exercise of management rights of the kind necessary to enable the Purchaser to continue to qualify as a VCOC, then the Seller Parties and the Purchaser shall in good faith negotiate provisions to enable the Purchaser to exercise the minimum amount of such management rights necessary in order for the Purchaser to continue to qualify as a VCOC.

VI.4 NASDAQ NATIONAL MARKET. Prior to the Closing, the Seller Parties shall cause the Purchased Shares to be approved for listing, subject to notice of issuance, by the NASDAQ National Market.

VI.5 NOTICE OF DEFAULTS. Each of the Seller Parties shall notify the Purchaser promptly in writing of, and contemporaneously shall provide the Purchaser with true and complete copies of any and all information or documents relating to, any event, transaction or circumstance that causes or will cause any covenant or agreement of such Seller Party under this Agreement to be materially breached (if not qualified by materiality) or breached (if qualified by materiality) or that renders or shall render materially untrue (if not qualified by materiality) or untrue (if qualified by materiality) any representation or warranty of such Seller Party contained in this Agreement as if the same were made on or as of the date of such event, transaction or circumstance. Each of the

Seller Parties also shall notify the Purchaser promptly in writing of any material violation or material breach (in each case, if not qualified by materiality) or any violation or breach (in each case, if qualified by materiality) of any representation, warranty, covenant or agreement made by such Seller Party in this Agreement, whether occurring or arising before, on or after the date of this Agreement. No notice given pursuant to this Section

6.5, and no representation made by the Purchaser contained in Section 5.3, shall have any effect on the representations, warranties, covenants and agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein or shall in any way limit the Purchaser's right to seek indemnity under Article IX.

VI.6 RESERVATION OF SHARES. At all times that all or any portion of the Warrant is outstanding, the Company shall keep reserved the full number of shares of Common Stock (or any successor security) then issuable upon exercise in full of the Warrant.

VI.7 MANAGEMENT SERVICES; MANAGEMENT FEE.

(a) The Company hereby engages the Purchaser for the Term, upon the terms set forth in this Section 6.7, to provide consulting and management advisory services to the Company. These services will be in the field of financial and strategic corporate planning and such other management areas as the Purchaser and the Company shall mutually agree. In consideration of the compensation specified in this Section 6.7, the Purchaser accepts such engagement and agrees to perform the services specified herein, in each case upon the term set forth in this Section 6.7.

(b) The engagement of the Purchaser under this Section 6.7 shall be for a term (the "TERM") commencing on the Closing Date and ending on the earlier of (i) the fifth anniversary of the Closing Date and (ii) the first date as of which the Purchaser ceases to own Subject Securities (as defined in the Stockholders' Agreement) representing (on a fully-diluted basis) at least 1% of the Purchaser's Original Ownership Level (as defined in the Stockholders' Agreement).

(c) The Purchaser shall devote such time and efforts to the performance of the consulting and management advisory services contemplated in this Section 6.6 as the Purchaser deems necessary or appropriate to the performance of such services. However, no precise number of hours is to be devoted by the Purchaser on a weekly, monthly or annual basis. The Purchaser may perform services under this Agreement directly, through its employees or agents or, with the approval of the Company, with such outside consultants as the Purchaser may engage for such purpose. The Company acknowledges that the Purchaser's services to it are not exclusive and that the Purchaser, its Affiliates and their respective partners, members, officers, directors, employees, representatives or agents will render similar services to other Persons.

(d) In consideration of the Purchaser's provision of management and advisory services to the Company pursuant to the Section 6.6, the Company shall pay the Purchaser an annual fee of $312,500, which shall be paid quarterly in arrears (and prorated on a daily basis in the case of any partial calender quarter) on the last day of each calendar quarter during the Term and on the

last day of the Term; PROVIDED, HOWEVER, that if on any quarterly (or other) payment date, the Purchaser owns Subject Securities (on a fully-diluted basis) constituting less than 50% of the Purchaser's Original Ownership Level, the fee payable on such date shall equal the product of (i) $312,500 (prorated for any fractions of a quarter) MULTIPLIED BY (ii) the fraction of the Purchaser's Original Ownership Level represented by the Subject Securities (on a fully-diluted basis) then owned by the Purchaser.

ARTICLE VII

CONDITIONS TO OBLIGATIONS OF THE PURCHASER

The obligations of the Purchaser hereunder are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by the Purchaser in its sole discretion):

VII.1 REPRESENTATIONS AND WARRANTIES. Each of the

representations and warranties made by the Seller Parties in this Agreement shall be true and correct in all material respects (if not qualified by materiality) and in all respects (if qualified by materiality) on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date.

VII.2 PERFORMANCE. Each of the Seller Parties shall have performed and complied with each agreement, covenant and obligation required by this Agreement to be performed or complied with by such Seller Party at or before the Closing.

VII.3 CERTIFICATES. The Company shall have delivered to the Purchaser a certificate, dated the Closing Date and executed by the President or any Vice President of the Company, substantially in the form and to the effect of EXHIBIT E-1 hereto, and a certificate, dated the Closing Date and executed by the Secretary or any Assistant Secretary of the Company, substantially in the form and to the effect of EXHIBIT E-2 hereto. The Selling Stockholders shall have delivered to the Purchaser a certificate, dated the Closing Date, executed by each of the Selling Stockholders, substantially in the form and to the effect of EXHIBIT E-3 hereto.

VII.4 ORDERS AND LAWS. There shall not be in effect on the Closing Date any Order or Law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or the Transaction Documents.

VII.5 REGULATORY CONSENTS AND APPROVALS. All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority necessary to permit the Purchaser and the Seller Parties to perform their respective obligations under this Agreement and the Transaction Documents and to consummate the transactions contemplated by this Agreement and the Transaction Documents (i) shall have been duly obtained, made or given, (ii) shall be in form

and substance reasonably satisfactory to the Purchaser, (iii) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (iv) shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement and the Transaction Documents shall have occurred.

VII.6 THIRD PARTY CONSENTS. All consents (or in lieu thereof waivers) to the performance by the Purchaser and the Seller Parties of their respective obligations under this Agreement and the Transaction Documents or to the consummation of the transactions contemplated by this Agreement or the Transaction Documents, as are required under any Contract to which the Purchaser, the Seller Parties or any Subsidiary is a party or by which any of their respective Assets and Properties are bound and where the failure to obtain any such consent (or in lieu thereof waiver) could reasonably be expected, individually or in the aggregate with other such failures, to materially adversely affect the Purchaser or the Business or Condition of the Company or otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement or the Transaction Documents to the Purchaser in its sole discretion, (i) shall have been obtained, (ii) shall be in form and substance reasonably satisfactory to the Purchaser in its sole discretion, (iii) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (iv) shall be in full force and effect.

VII.7 OPINION OF COUNSEL. The Purchaser shall have received the opinions of Nida & Maloney LLP, counsel to the Seller Parties, dated the Closing Date, in substantially the form of EXHIBIT F.

VII.8 TRANSACTION DOCUMENTS. The Warrant shall have been duly executed and issued to the Purchaser, and each of the other Transaction Documents shall have been duly executed and delivered by the respective parties thereto (other than the Purchaser) and shall be in full force and effect.

VII.9 CLOSING FEE. In addition to the Warrant, the Purchaser shall have received from the Company, by wire transfer of immediately available funds to an account designated by the Purchaser, a closing fee in the amount of $300,000.

VII.10 DELIVERY OF CERTIFICATES. Duly executed stock certificates representing the Issued Shares, and stock certificates representing the Selling Stockholders' Shares, together with all necessary instruments of transfer, in form and substance reasonably satisfactory to the Purchaser, shall have been delivered to the Purchaser.

VII.11 NASDAQ NATIONAL MARKET. The Purchased Shares shall have been approved for listing, subject to notice of issuance, by the NASDAQ National Market.

VII.12 PROCEEDINGS. All proceedings to be taken on the part of the Seller Parties in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to the Purchaser, in its sole discretion, and its legal counsel, and the Purchaser shall have received copies of all such documents and other evidence as the Purchaser may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VIII

CONDITIONS TO OBLIGATIONS OF THE SELLER PARTIES

The obligations of the Seller Parties hereunder are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part (as to any Seller Party) by such Seller Party in its sole discretion):

VIII.1 REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties made by the Purchaser in this Agreement shall be true and correct in all material respects on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date.

VIII.2 PERFORMANCE. The Purchaser shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with by the Purchaser at or before the Closing.

VIII.3 CERTIFICATE. The Purchaser shall have delivered to the Seller Parties a certificate, dated the Closing Date and executed by a duly authorized representative of the Purchaser, substantially in the form and to the effect of EXHIBIT G attached hereto.

VIII.4 ORDERS AND LAWS. There shall not be in effect on the Closing Date any Orders or Laws that became effective after the date of this Agreement restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or the Transaction Documents.

VIII.5 TRANSACTION DOCUMENTS. Each of the Transaction Documents shall have been duly executed and delivered by the respective parties thereto other than the Seller Parties, and shall be in full force and effect.

ARTICLE IX

SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS

Notwithstanding any right of the Purchaser (whether or not exercised) to investigate the affairs of any of Seller Parties or any right of any party (whether or not exercised) to investigate the accuracy of the representations and warranties of another party contained in this Agreement or the waiver of any condition to Closing, each of the Seller Parties and the Purchaser has the right to rely fully upon the representations, warranties, covenants and agreements of the others contained in this Agreement. The representations, warranties, covenants and agreements of each of the Seller Parties and the Purchaser contained in this Agreement will survive the Closing (a) indefinitely with respect to the covenants and agreements contained herein and the representations and warranties contained in Sections 3.1, 3.2, 3.3, 3.4, 3.11, 4.1, 4.2, 4.5, 5.1 and 5.4 and (b) until the third anniversary of the Closing Date with respect to all other representations and warranties, except that any representation or warranty that would otherwise terminate in accordance with clause (b) above will continue to survive if a Claim Notice or Indemnity Notice (as applicable) shall have been timely given under Article X on or prior to such termination date, until the related claim for indemnification has been satisfied or otherwise resolved as provided in Article X, but only with respect to matters described in such Claim Notice or Indemnity Notice.

ARTICLE X

INDEMNIFICATION

X.1 INDEMNIFICATION.

(a) Whether or not the transactions contemplated by this Agreement are consummated, the Company shall indemnify the Purchaser and its Affiliates, and each of their respective officers, directors, managers, partners, employees, agents, members, authorized representatives and stockholders (collectively, the "PURCHASER INDEMNIFIED PARTIES", and each, a "PURCHASER INDEMNIFIED PARTY"), in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to (i) any breach of any representation or warranty on the part of the Company contained in this Agreement, (ii) any nonfulfillment of or failure to perform any covenant or agreement on the part of the Company contained in this Agreement, (iii) the assertion by any Person not a party to this Agreement of any claim against a Purchaser Indemnified Party in connection with the matters or transactions that are the subject of or contemplated by this Agreement or any of the Transaction Documents to which the Company is a party (including any claim asserted in any actual or threatened Action or Proceeding with respect to any use made or proposed to be made of the proceeds from the issuance or sale of any Issued Shares), or (iv) violations of applicable securities laws by the Company in connection with the offering of any Issued Shares. Notwithstanding the immediately preceding sentence, (x) the Company shall not have any obligations hereunder to a Purchaser Indemnified Party in respect of clause (iii) of this Section 10.1(a) to the extent that a Loss claimed by such Purchaser Indemnified

Party thereunder is finally adjudicated by a court of competent jurisdiction to have resulted primarily from the gross negligence or wilful misconduct of such Purchaser Indemnified Party and (y) the Company shall not have any obligations to a Purchaser Indemnified Party in respect of a claim for indemnification relating to this Section 10.1(a) unless and until the aggregate amount of the Purchaser Indemnified Parties' Losses in respect of all such claims then exceeds $105,000, after which the Purchaser shall be obligated for all such aggregate Losses of the Purchaser Indemnified Parties in respect of such claims only in excess of such amount. If and to the extent that the indemnification set forth herein is finally determined by a court of competent jurisdiction to be unenforceable, the Company shall make the maximum contribution to the payment and satisfaction of the indemnified

Losses as shall be permissible under applicable laws.

(b) Whether or not the transactions contemplated by this Agreement are consummated, the Selling Stockholders, jointly and severally, shall indemnify the Purchaser Indemnified Parties, in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to (i) any breach of any representation or warranty on the part of any Selling Stockholder contained in this Agreement, (ii) any nonfulfillment of or failure to perform any covenant or agreement on the part of any Selling Stockholder contained in this Agreement, (iii) the assertion by any Person not a party to this Agreement of any claim against a Purchaser Indemnified Party in connection with the matters or transactions that are the subject of or contemplated by this Agreement or the Transaction Documents to which any Selling Stockholder is a party (including any claim asserted in any actual or threatened Action or Proceeding with respect to any use made or proposed to be made of the proceeds from the sale of any Selling Stockholders' Shares) and (iv) violations of applicable securities laws by the Selling Stockholders in connection with the sale of any Selling Stockholders' Shares. Notwithstanding the immediately preceding sentence, (x) the Selling Stockholders shall not have any obligations hereunder to a Purchaser Indemnified Party in respect of clause (iii) of this Section 10.1(b) to the extent that a Loss claimed by such Purchaser Indemnified Party thereunder is finally adjudicated by a court of competent jurisdiction to have resulted primarily from the gross negligence or wilful misconduct of such Purchaser Indemnified Party and (y) the Selling Stockholders shall not have any obligations to a Purchaser Indemnified Party in respect of a claim for indemnification relating to this Section 10.1(b) unless and until the aggregate amount of the Purchaser Indemnified Parties' Losses in respect of all such claims exceeds $20,000, after which the Selling Stockholders shall be obligated for all such aggregate Losses of the Purchaser Indemnified Parties in respect of such claims only in excess of such amount. If and to the extent that the indemnification set forth herein is finally determined by a court of competent jurisdiction to be unenforceable, the Selling Stockholders shall jointly and severally make the maximum contribution to the payment and satisfaction of the indemnified Losses as shall be permissible under applicable laws.

(c) The Purchaser shall indemnify the Company and the Selling Stockholders and their respective directors, officers, employees, trustees, beneficiaries, successors and assigns (collectively, the "SELLER INDEMNIFIED PARTIES") in respect of, and hold each of them harmless from

and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to (i) any breach of any representation or warranty on the part of the Purchaser contained in this Agreement, (ii) any nonfulfillment of or failure to perform any covenant or agreement on the part of the Purchaser contained in this Agreement or (iii) violations of applicable securities laws by the Purchaser in connection with any resale of the Purchased Shares or the Warrant (other than in connection with a resale pursuant to the Registration Rights Agreement). Notwithstanding the immediately preceding sentence, the Purchaser shall not have any obligations to a Seller Indemnified Party in respect of a claim for indemnification relating to this Section 10.1(c) unless and until the aggregate amount of the Seller Indemnified Parties' Losses in respect of all such claims exceeds $125,000, after which the Purchaser shall be obligated for all such aggregate Losses of the Seller Indemnified Parties in respect of such claims in excess of such amount.

X.2 METHOD OF ASSERTING CLAIMS. All claims for indemnification by any Indemnified Party under Section 10.1 will be asserted and resolved as follows:

(a) In order for an Indemnified Party to be entitled to any indemnification provided for under Section 10.1 in respect of, arising out of or involving a claim or demand made by any Person not a party to this Agreement against the Indemnified Party (a "THIRD PARTY CLAIM"), the Indemnified Party must deliver a claim notice (a "CLAIM NOTICE") to the Indemnifying Party within

30 Business Days after receipt by such Indemnified Party of written notice of the Third Party Claim; PROVIDED, HOWEVER, that failure to give such Claim Notice shall not affect the indemnification provided hereunder except to the extent that the Indemnifying Party shall have been actually prejudiced as a result of such failure.

(b) If a Third Party Claim is made against an Indemnified Party, the Indemnifying Party shall be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Party, which counsel must be reasonably satisfactory to the Indemnified Party. Subject to the next succeeding sentence, should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party shall not be liable to the Indemnified Party for legal expenses subsequently incurred by the Indemnified Party in connection with the defense thereof, but shall continue to pay for any Loss suffered, including expenses of investigations; and if the Indemnifying Party assumes such defense, the Indemnified Party shall have the right to participate in such defense and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Party. If (i) the Indemnifying Party shall not assume the defense of a Third Party Claim with counsel reasonably satisfactory to the Indemnified Party within 20 Business Days after the delivery to the Indemnifying Party of the related Claim Notice, or (ii) legal counsel for the Indemnified Party notifies the Indemnifying Party in writing that there are or may be legal defenses available to the Indemnified Party or to other Indemnified Parties which are different from or additional to those available to the Indemnifying Party, which, if the Indemnified Party and the Indemnifying Party were to be represented by the same counsel, would constitute a conflict of interest for such counsel or prejudice

prosecution of the defenses available to such Indemnified Party, or (iii) the Indemnifying Party shall assume the defense of a Third Party Claim and fail to diligently prosecute such defense, then in each such case the Indemnified Party, by notice to the Indemnifying Party, may employ its own counsel and control the defense of the Third Party Claim and the Indemnifying Party shall be liable for the reasonable fees, charges and disbursements of counsel employed by the Indemnified Party; and the Indemnified Party shall be promptly reimbursed for any such fees, charges and disbursements, as and when incurred. Whether the Indemnifying Party or the Indemnified Party controls the defense of any Third Party Claim, the parties hereto shall cooperate in the defense thereof. Such cooperation shall include the retention and provision to the counsel of the controlling party of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. The Indemnifying Party shall have the right to settle, compromise or discharge a Third Party Claim (other than any such Third Party Claim in which criminal conduct is alleged) without the Indemnified Party's consent if such settlement, compromise or discharge (i) constitutes a complete and unconditional discharge and release of the Indemnified Party, and (ii) provides for no relief other than the payment of monetary damages and such monetary damages are paid in full by the Indemnifying Party. Any amounts reimbursed to any Indemnified Party hereunder with respect to a particular Third Party Claim shall be repaid to the Indemnifying Party in the event that it is finally adjudicated by a court of competent jurisdiction that such Indemnified Party is not entitled to indemnification by the Indemnifying Party with respect to such Third Party Claim.

(c) In the event any Indemnified Party shall have a claim under Section 10.1 against the Indemnifying Party that does not involve a Third Party Claim, the Indemnified Party shall deliver an indemnity notice (an "INDEMNITY NOTICE") with reasonable promptness to the Indemnifying Party. The failure by any Indemnified Party to give the Indemnity Notice shall not impair such party's rights hereunder except to the extent that the Indemnifying Party demonstrates that it has been materially prejudiced thereby. If the Indemnifying Party notifies the Indemnified Party that it does not dispute the claim described in such Indemnity Notice or fails to notify the Indemnified Party within the Dispute Period as to whether the Indemnifying Party disputes the

claim described in such Indemnity Notice, the Loss in the amount specified in the Indemnity Notice will be conclusively deemed a liability of the Indemnifying Party under Section 10.1 and, subject to the "basket" provisions of Section 10.1, the Indemnifying Party shall pay the amount of such Loss to the Indemnified Party on demand. If the Indemnifying Party has timely disputed its liability with respect to such claim, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within the Resolution Period, such dispute shall be resolved by litigation in a court of competent jurisdiction.

(d) The rights accorded to Indemnified Parties hereunder shall be in addition to any rights that any Indemnified Party may have at law or in equity, under federal and state securities laws, by separate agreement (including under the Transaction Documents) or otherwise.

ARTICLE XI

[INTENTIONALLY OMITTED.]

ARTICLE XII

MISCELLANEOUS

XII.1 NOTICES. 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 prepaid first class certified mail, return receipt requested, or mailed by overnight courier prepaid, to the parties at the following addresses or facsimile numbers:

(a) if to the Purchaser, to:

Recovery Equity Investors II, L.P.
901 Mariner's Island Boulevard
Suite 555
San Mateo, CA 94404
Facsimile No.: (650) 578-9842
Attn: Joseph J. Finn-Egan
Jeffrey A. Lipkin

with a copy to:

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

(b) if to the Seller Parties, to:

QAD INC.
6450 Via Real
Carpinteria, CA 93013
Facsimile No.: (856) 840-2698
Attn: Roland B. Desilets, General Counsel

and to:

Karl F. Lopker
305 Woodley Road
Santa Barbara, CA 93108

and to:

Pamela M. Lopker
305 Woodley Road
Santa Barbara, CA 93108

with a copy to:

Nida & Maloney LLP
800 Anacapa Street
Santa Barbara, CA 93101-2212
Facsimile No.: 805-568-1955

All such notices, requests and other communications to any party hereto will (i) if delivered personally to such party at its address as provided in this Section 12.1, be deemed given upon delivery, (ii) if delivered by facsimile transmission to such party at its facsimile number as provided in this Section 12.1, be deemed given upon receipt, (iii) if delivered by mail in the manner described above to such party at its address as provided in this Section 12.1, be deemed given on the earlier of the third Business Day following mailing or upon receipt and (iv) if delivered by overnight courier to such party at its address as provided in this Section 12.1, be deemed given on the earlier of the first Business Day following the date sent by such overnight courier or upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice is to be delivered pursuant to this Section 12.1). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

XII.2 ENTIRE AGREEMENT. This Agreement and the Transaction Documents supersede all prior discussions and agreements between the parties hereto with respect to the subject matter hereof and thereof and contain the sole and entire agreement between the parties hereto with respect to the subject matter hereof and thereof.

XII.3 FEES AND EXPENSES. Except as otherwise expressly provided herein or in any Transaction Document, each party hereto shall be responsible for the payment of all fees and expenses incurred by it in connection with this Agreement or any Transaction Document.

XII.4 PUBLIC ANNOUNCEMENTS. At all times at or before the Closing, the Purchaser will not issue or make any statements or releases to the public with respect to this Agreement or the

transactions contemplated hereby without the consent of the Company, which consent shall not be unreasonably withheld. If the Purchaser is unable to obtain the approval of its public statement or release from the Company and such statement or release is, in the opinion of legal counsel to the Purchaser, required by Law in order to discharge the Purchaser's disclosure obligations, then the Purchaser may make or issue the legally required statement or release and promptly furnish the other parties hereto with a copy thereof. The Purchaser will also obtain the Company's prior approval of any press release to be issued by or on behalf of the Purchaser following the Closing announcing the consummation of the transactions contemplated by this Agreement.

XII.5 FURTHER ASSURANCES. At any time and from time to time after the Closing, the Seller Parties shall execute and deliver to the Purchaser such other documents and instruments, provide such materials and information and take such other actions as the Purchaser may reasonably request more effectively to vest title in such Purchaser to the Purchased Shares and the Warrant and otherwise to cause the Seller Parties to fulfill their obligations under this Agreement and the Transaction Documents.

XII.6 WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no

such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition (and no such waiver shall in any event be binding on any other party hereto that is entitled to the benefits of such term or provision). No waiver by any party hereto of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, will be cumulative and not alternative.

XII.7 AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

XII.8 THIRD PARTY BENEFICIARIES. The terms and provisions of this Agreement are intended solely for the benefit of the parties hereto and their respective successors and permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights, and this Agreement does not confer any such rights, upon any other Person other than any Person entitled to indemnity under Article X.

XII.9 NO ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any right, interest or obligation hereunder may be assigned (by operation of Law or otherwise) by any of the Seller Parties without the prior written consent of the Purchaser, and any attempt to do so will be void AB INITIO. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by the Purchaser without the prior written consent of the other parties hereto, and any attempt to do so will be void AB INITIO. Subject to the immediately preceding sentence, this Agreement shall bind and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns, including any holder of Purchased Shares (or any successor securities) or the Warrant.

XII.10 HEADINGS; CONSTRUCTION. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof. The parties hereto agree that this Agreement is the product of negotiation between sophisticated parties and individuals, all of whom were represented by counsel, and each of whom had an opportunity to participate in and did participate in, the drafting of each provision hereof. Accordingly, ambiguities in this Agreement, if any, shall not be construed strictly or in favor of or against any party hereto but rather shall be given a fair and reasonable construction without regard to the rule of CONTRA PROFERENTUM.

XII.11 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, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) 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 (iv) 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.

XII.12 GOVERNING LAW. This Agreement shall be governed by 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 (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.

XII.13 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.

XII.14 LIMITED RECOURSE. Notwithstanding anything in this

Agreement, any Transaction Document or any other document, agreement or instrument contemplated hereby to the contrary, (a) the obligations of the Purchaser hereunder shall be without recourse to any Affiliate of the Purchaser or any stockholder, partner, member, officer, director, manager, employee or agent of the Purchaser or any such Affiliate, and shall be limited to the assets of the Purchaser and (b) the obligations of the Company hereunder shall be without recourse to any Affiliate of the Company or any stockholder, officer, director, employee or agent of the Company (in each case other than the Selling Stockholders), and shall be limited to the assets of the Company.

XII.15 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. EACH OF THE SELLER PARTIES AND THE PURCHASER 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 OR THE TRANSACTION DOCUMENTS MAY BE LITIGATED IN SUCH COURTS. EACH OF THE SELLER PARTIES AND THE PURCHASER ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS RESPECTIVE 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 OR THE TRANSACTION DOCUMENTS. EACH OF THE SELLER PARTIES AND THE PURCHASER 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 IT 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.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer or other representative of each party hereto as of the date first above written.

QAD INC.

By:_____
Name:
Title:

PAMELA M. LOPKER

KARL F. LOPKER

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

[SIGNATURE PAGE TO STOCK PURCHASE AGREEMENT]

THE LOPKER LIVING TRUST
DATED MARCH 23, 1993

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

[SIGNATURE PAGE TO PURCHASE AGREEMENT]

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REGISTRATION RIGHTS AGREEMENT dated as of December 23, 1999, between QAD INC., a Delaware corporation (the "COMPANY") and RECOVERY EQUITY INVESTORS II, L.P., a Delaware limited partnership (together with its permitted successors, transferees and assigns hereunder, "REI"). Capitalized terms are used as defined in Article X hereto.

RECITALS

WHEREAS, pursuant to that certain Stock Purchase Agreement (as the same may be amended, supplemented or otherwise modified from time to time, the "STOCK PURCHASE AGREEMENT") dated as of December 23, 1999, among REI, the Company, Pamela M. Lopker, Karl F. Lopker and The Lopker Living Trust dated March 23, 1993, REI is acquiring an aggregate of 2,777,778 shares of Common Stock of the Company for an aggregate purchase price equal to $12,500,000;

WHEREAS, pursuant to the Stock Purchase Agreement, the Company is issuing to REI a warrant exercisable for an aggregate of 225,000 shares of Common Stock (as such amount may be adjusted from time to time pursuant to the anti-dilution provisions of such warrant);

WHEREAS, each of REI and the Company desires to enter into this Agreement to provide for registration rights with respect to the Common Stock, including shares issuable upon exercise of the aforementioned warrant;

WHEREAS, the Purchase Agreement provides, among other things, that the execution and delivery of an agreement in substantially the form hereof is a condition to the consummation of the other transactions contemplated by the Stock Purchase Agreement.

NOW THEREFORE, in connection with the Stock Purchase Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
DEMAND REGISTRATIONS

1.1 REQUESTS FOR REGISTRATION. (a) Subject to Sections 1.2 and 1.7, at any time after the date hereof, any or all of the Required REI Stockholders may request in writing registration under the Securities Act of all or part of their Registrable Securities (i) on Form S-1 or Form S-2 or any similar or successor long-form registration statement (any such registration, a "LONG-FORM REGISTRATION") or (ii) on Form S-3 or any similar or successor short-form registration statement (any such registration, a "SHORT-FORM REGISTRATION") if the Company qualifies to use such short form. Within 10 days after its receipt of any such request, the Company will give written notice of such request to all other Participating Stockholders. Thereafter, the Company will use all reasonable efforts to effect the registration under the Securities Act on the form requested by the Requesting Investors, and to include in such registration, (i) all Registrable Securities which the Requesting Investors have so requested to be included therein, and (ii) all other Registrable Securities with respect to which the Company has received written requests for inclusion therein by the Participating Stockholders within 30 days after their receipt of the Company's notice, subject in each case to the provisions of Section 1.4. Each Long-Form Registration or Short-Form Registration requested in accordance with this Section 1.1 is referred to herein as a "DEMAND REGISTRATION."

(b) The Requesting Investors which request a Demand Registration pursuant to this Section 1.1 may, at any time prior to the effective date of the registration statement relating to such Demand Registration, revoke such request by providing written notice to the Company; PROVIDED, HOWEVER, that notwithstanding such revocation, such Demand Registration shall be deemed a request for purposes of Section 1.2 unless, after consultation with the Company and any proposed underwriter, the Requesting Investors in good faith determine that more than 25% of the amount of

Registrable Securities which they have requested to be registered (before giving effect to any cutback pursuant to Section 1.4) would not be sold pursuant to such Demand Registration within a reasonable amount of time or at a price reasonably acceptable to such Requesting Investors.

(c) Any request for a Demand Registration pursuant to Section 1.1 shall specify the number of Registrable Securities proposed to be sold by the Requesting Investors and the intended method of disposition thereof.

1.2 DEMAND REGISTRATIONS. The Required REI Stockholders will be entitled to request pursuant to Section 1.1 two Demand Registrations. The Company will pay all Registration Expenses in connection with any such Demand Registration. All Demand Registrations (unless otherwise requested by the Requisite Registration Participants) shall be underwritten registrations.

1.3 EFFECTIVE REGISTRATION STATEMENT. No Demand Registration shall be deemed to have been requested or effected for purposes of Section 1.1(a) or 1.2:

(i) unless a registration statement with respect thereto has been declared effective by the Commission (other than in connection with a revocation notice delivered pursuant to Section 1.1(b)) and the Company has complied in all material respects with all obligations required to be performed by it on or prior to the date of such declaration in connection with such Demand Registration;

(ii) if after such registration statement has become effective, any stop order, injunction or other order or requirement of the Commission or any other Governmental or Regulatory Authority affecting any of the Registrable Securities covered by such registration statement, is for any reason threatened in writing or issued by the Commission or such other Governmental or Regulatory Authority and, as a result thereof, none of the Registrable Securities covered thereby have been sold;

(iii) if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such Demand Registration are not satisfied by reason of a failure by or inability of the Company to satisfy any of such conditions to closing;

(iv) if the Company declines to effect such Demand Registration pursuant to Section 1.7(a) or delivers a Black-Out Notice with respect to such Demand Registration;

(v) if the Requesting Investors have made the determination contemplated by the PROVISO to Section 1.1(b) with respect to such Demand Registration and have notified the Company of such determination in accordance with Section 1.1(b);

(vi) if the Requesting Investors are not able to register and sell at least 75% of the amount of Registrable Securities which they requested (before giving effect to any cutback effected pursuant to Section 1.4) to be included in such registration; or

(vii) if the registration statement with respect to such Demand Registration does not remain effective for a period of at least 180 days beyond the effective date thereof or, in the case of any Demand Registration that constitutes an underwritten offering of Registrable Securities, until 45 days after the commencement of the distribution by the holders of the Registrable Securities included in such Demand Registration, in each case unless all of the Registrable Securities included in such Demand Registration have been sold

to the public prior thereto in accordance with the plan of distribution specified in such registration statement.

If a Demand Registration requested pursuant to this Article I is deemed not to have been requested or effected as provided in this Section 1.3, then the Company shall continue to be obligated to effect the number of Demand Registrations set forth in Section 1.2 without giving effect to such requested Demand Registration and will pay all Registration Expenses in connection with such Demand Registration.

1.4 PRIORITY ON DEMAND REGISTRATIONS. The Company will not include in any Demand Registration any securities which are not Registrable Securities of the Participating Stockholders without the written consent of the Requisite Registration Participants. If the Requesting Investors and other holders of Registrable Securities request Registrable Securities to be included in a Demand Registration which is an underwritten offering and the managing underwriter advises the Company in writing that in its opinion the number of Registrable Securities requested to be included exceeds the number of Registrable Securities which can be sold in such offering within a price range acceptable to the Requisite Requesting Investors, the Company will include any securities to be sold in such Demand Registration in the following

order: (i) FIRST, the Registrable Securities requested to be included in such registration by the Requesting Investors in accordance with Section 1.1(a); (ii) SECOND, the Registrable Securities requested to be included in such registration by other Participating Stockholders in accordance with Section 1.1(a); (iii) THIRD, the securities which the Company proposes to sell; and (iv) FOURTH, any securities other than Registrable Securities to be sold by persons other than the Company included in such registration in compliance with Section 1.6.

1.5 SELECTION OF UNDERWRITERS. The Requisite Registration Participants with respect to any Demand Registration will have the right to select the underwriters and the managing underwriter to administer such Demand Registration (which underwriters and managing underwriters shall be reasonably acceptable to the Company).

1.6 OTHER REGISTRATION RIGHTS. Except as provided in this Agreement, without the written consent of the Participating Stockholders which then hold Registrable Securities representing at least a majority (by number of shares) of the Registrable Securities (on a Fully-Diluted Basis) then held by all Participating Stockholders, the Company will not grant to any Person the right to request the Company to register any equity securities of the Company, or any securities convertible, exchangeable or exercisable for or into such securities, other than piggyback registration rights entitling the holder thereof to participate in Company-initiated registrations, subject to the prior rights of Participating Stockholders to include their Registrable Securities in Company-initiated registrations in accordance with Section 2.3; PROVIDED, HOWEVER, that this Section 1.6 shall not apply to any grant of registration rights that is made by the Company after the Participating Stockholders cease to hold shares of Common Stock and Equity Equivalents representing (on a Fully-Diluted Basis) at least 50% of REI's Original Ownership Level.

1.7 BLACK-OUT RIGHTS AND POSTPONEMENT. (a) The Company shall not be required to effect a Demand Registration if the Company, within the 120-day period preceding the date of a request for a Demand Registration, has effected a registration of securities in which the Participating Stockholders were able to register and sell at least 75% of the amount of Registrable Securities which they requested (before giving effect to any cutback effected pursuant to Section 1.4, 2.3 or 2.4) to be included in such registration pursuant to Demand Registration rights under Article I or Piggyback Registration rights under Article II.

(b) The Company may, upon written notice (a "BLACK-OUT NOTICE") to the Requesting Investors requesting a Demand Registration, require such Requesting Investors to withdraw such Demand Registration upon the good faith determination by the Company that such postponement is necessary (i) to avoid disclosure of material non-public information or (ii) as a result of a

pending material financing or acquisition transaction, and in each case, each of the REI Stockholders may not request another Demand Registration for a period of up to 120 days, as specified by the Company in such Black-Out Notice. The Company may only give a Black-Out Notice where the giving of such notice has been specifically approved by the Board of Directors of the Company. Upon receipt of a Black-Out Notice, the related Demand Registration shall be deemed to be rescinded and retracted and shall not be counted as a Demand Registration for any purpose hereunder. The Company may not deliver more than three Black-Out Notices in

any 12-month period; PROVIDED, HOWEVER, that the aggregate number of days covered by Black-Out Notices in any 12-month period shall not under any circumstances exceed 120.

ARTICLE II
PIGGYBACK REGISTRATIONS

2.1 RIGHT TO PIGGYBACK. Whenever the Company proposes to register any of its equity securities under the Securities Act (other than pursuant to a Demand Registration and other than on Forms S-4 or S-8 or any successor forms), whether for the Company's own account or for the account of any other Person, and the registration form to be used may be used for the registration of Registrable Securities (a "PIGGYBACK Registration"), the Company will give prompt written notice (in any event within 10 days after its receipt of notice of any exercise of other demand registration rights) to all Participating Stockholders of its intention to effect such a registration. Such notice shall offer each Participating Stockholder the opportunity to register, on the same terms and conditions, such number of such Participating Stockholder's Registrable Securities as such Participating Stockholder may request. The Company will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein by Participating Stockholders within 30 days after their receipt of the Company's notice, subject to the provisions of Sections 2.3 and 2.4. Such requests for inclusion shall specify the number of Registrable Securities intended to be disposed of and the intended method of distribution thereof.

2.2 PIGGYBACK EXPENSES. The Registration Expenses of the Participating Stockholders will be paid by the Company in all Piggyback Registrations.

2.3 PRIORITY ON PRIMARY REGISTRATIONS. If a Piggyback Registration is an underwritten primary registration on behalf of the Company, and the managing underwriter advises the Company in writing that in its opinion the number of securities requested to be included in such registration is such that the success of the Company's offering will be materially and adversely affected, then the Company will include any securities to be sold in such Piggyback Registration in the following order: (i) FIRST, the securities the Company proposes to sell; (ii) SECOND, the Registrable Securities requested to be included in such registration by the Participating Stockholders in accordance with Section 2.1, PROVIDED that if the managing underwriter in good faith determines that a lower number of Registrable Securities of the Participating Stockholders should be included, then the Company shall be required to include in such registration only that lower number of Registrable Securities, and the Participating Stockholders shall participate in such registration on a pro rata basis in accordance with the number of Registrable Securities requested to be included in such registration by each Participating Stockholder; and (iii) THIRD, if all Registrable Securities requested to be included in such registration by the Participating Stockholders in accordance with Section 2.1 are included in such registration, any other securities requested to be included in such registration in compliance with Section 1.6.

2.4 PRIORITY ON SECONDARY REGISTRATIONS. If a Piggyback Registration is an underwritten secondary registration on behalf of holders of the Company's securities, and the managing underwriter advises the Company in writing that in its opinion the number of securities requested to be included in such registration is such that the success of such holders' offering would be materially and adversely affected, then the Company will include any securities to be sold in such Piggyback Registration in the following order: (i) FIRST, the securities which such holders propose to sell in compliance with Section 1.6; (ii) SECOND, the Registrable Securities requested to be included in such registration by the Participating Stockholders in accordance with Section 2.1, PROVIDED that if the managing underwriter determines in good faith that a lower number of Registrable Securities of the Participating Stockholders should be included, then the Company shall be required to include in such registration only that lower number of Registrable Securities, and the Participating Stockholders shall participate in such registration on a pro rata basis in accordance with the number of Registrable Securities requested to be included in such registration by each; and (iii) THIRD, any other securities proposed to be included in such registration in compliance with Section 1.6.

ARTICLE III
HOLDBACK AGREEMENTS

3.1 HOLDER'S HOLDBACK OBLIGATIONS. Each Participating Stockholder agrees not to effect any public sale or distribution of Registrable Securities, or any securities convertible, exchangeable or exercisable for or into Registrable Securities during the seven days prior to, and the 180-day period beginning on, the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration in which such Participating Stockholder had an opportunity to participate without cutback under Article II hereof (in each case except as part of such underwritten registration), unless the managing underwriter of such underwritten registration otherwise agrees.

3.2 COMPANY'S HOLDBACK OBLIGATIONS. Unless the managing underwriter of the relevant underwritten Demand Registration or an underwritten Piggyback Registration otherwise agrees, the Company agrees (i) not to effect any public sale or distribution of its equity securities, or any securities convertible, exchangeable or exercisable for or into such securities, during the 14 days prior to, and during the 90-day period beginning on, the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration in which holders of Registrable Securities are selling stockholders (except as part of such underwritten registration or pursuant to registrations on Form S-4 or S-8 or any successor forms), and (ii) to use all reasonable efforts to cause each holder of at least 5% (on a Fully-Diluted Basis) of its equity securities to agree not to effect any public sale or distribution of any such equity securities or any securities convertible, exchangeable or exercisable for into such equity securities during the 180-day period beginning on the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration in which holders of Registrable Securities are selling stockholders (except as part of such underwritten registration, if otherwise permitted).

ARTICLE IV
REGISTRATION PROCEDURES

Whenever Participating Stockholders have requested that any Registrable Securities be registered in accordance with Article I or II, the Company will use all reasonable efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto the Company will as reasonably expeditiously as possible (or, in the case of clause (p) below, will not):

(a) promptly prepare and file with the Commission a registration statement with respect to such Registrable Securities (such registration statement to include all information which the Participating Stockholders holding the Registrable Securities to be registered thereby shall reasonably request) and use all reasonable efforts to cause such registration

statement to become effective, PROVIDED, that as promptly as practicable before filing a registration statement or prospectus or any amendments or supplements thereto, the Company will (i) furnish to one counsel selected by the Requisite Registration Participants copies of all such documents proposed to be filed, and the Company shall not file any such document to which such counsel shall have reasonably objected on the grounds that such document does not comply in all material respects with the requirements of the Securities Act, and (ii) notify each Participating Stockholder holding Registrable Securities covered by such registration statement of (x) any request by the Commission to amend such registration statement or amend or supplement any prospectus, or (y) any stop order issued or threatened by the Commission, and take all reasonable actions required to prevent the entry of such stop order or to promptly remove it if entered;

(b) (i) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective at all times during the period commencing on the effective date of such registration statement and ending on the first date as of which all Registrable Securities of the Participating Stockholders covered by such registration statement are sold in accordance with the intended plan of distribution set forth in such registration statement and (ii) comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish to each Participating Stockholder holding Registrable Securities covered by such registration statement, without charge, such number of conformed copies of such registration statement, each amendment and supplement thereto, the prospectus included in such registration statement (including each preliminary prospectus and, in each case, including all exhibits thereto and documents incorporated by reference therein) and such other documents as such Participating Stockholder may reasonably request in order to facilitate the disposition of the Registrable Securities covered thereby that are held by such Participating Stockholder;

(d) use its best efforts to register or qualify the Registrable Securities covered by such registration statement under such other securities or blue sky laws of such jurisdictions in the United States as any Participating Stockholder holding any such Registrable Securities shall reasonably request, to keep such registration or qualification in effect for so long as such registration statement remains in effect and to do any and all other acts and things which may be reasonably necessary or advisable to enable such Participating Stockholder to consummate the disposition in such jurisdictions of any such Registrable Securities held by such Participating Stockholder; PROVIDED, HOWEVER, that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this clause (d), (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction;

(e) furnish to each Participating Stockholder holding Registrable Securities covered by such registration statement a signed copy, addressed to such Participating Stockholder (and the underwriters, if any), of an opinion of counsel for the Company or special counsel to such Participating Stockholder dated the effective date of such registration statement (and, if such registration statement includes an underwritten public offering, dated the date of the closing under the underwriting agreement), reasonably satisfactory in form and substance to the Requisite Registration Participants, covering substantially the same matters with respect to such registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer's counsel delivered to the underwriters in underwritten public offerings, and such other legal matters as the Requisite Registration Participants (or the underwriters, if any) may reasonably request;

(f) notify each Participating Stockholder holding Registrable Securities covered by such registration statement, at a time when a prospectus

relating to such Registrable Securities is required to be delivered under the Securities Act, of the occurrence of any event known to the Company as a result of which the prospectus included in such registration statement, as then in effect, contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made, and, at the request of any such Participating Stockholder, (i) the Company will prepare and furnish such Participating Stockholder a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances under which they were made and (ii) the Company shall extend the period during which such registration statement shall be maintained effective by the number of days during the period from and including the date of the giving of such notice to such Participating Stockholder to the date when the Company made available to such Participating Stockholder an appropriately amended or supplemented prospectus;

(g) cause all Registrable Securities of the Participating Stockholders covered by such registration statement to be listed on each securities exchange and quotation system on which similar securities issued by the Company are then listed and to enter into such customary

agreements as may be required in furtherance thereof, including listing applications and indemnification agreements in customary form;

(h) provide a transfer agent and registrar for the Registrable Securities of the Participating Stockholders covered by such registration statement not later than the effective date of such registration statement;

(i) enter into such customary arrangements and take all such other actions as the Requisite Registration Participants or the underwriters, if any, for the offering of the Registered Securities covered by such registration statement reasonably request in order to expedite or facilitate the disposition of such Registrable Securities;

(j) make available for inspection by any Participating Stockholder holding Registrable Securities covered by such registration statement, any underwriter participating in any disposition of securities pursuant to such registration statement and any attorney, accountant or other agent retained by any such Participating Stockholder or underwriter, all pertinent financial and other records, corporate documents and properties of the Company and all correspondence between the Commission and the Company or its counsel or auditors and all memoranda relating to discussions with the Commission or its staff in connection with such registration statement, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by any such Participating Stockholder, underwriter, attorney, accountant or agent in connection with such registration statement;

(k) subject to other provisions hereof, use all reasonable efforts to cause the Registrable Securities of the Participating Stockholders covered by such registration statement to be registered with or approved by such Governmental or Regulatory Authorities or self-regulatory organizations as may be necessary to enable such Participating Stockholders to consummate the disposition of such Registrable Securities;

(l) use all reasonable efforts to obtain a "cold comfort" letter, dated the effective date of such registration statement (and, if such registration includes an underwritten offering, dated the date of the closing under the underwriting agreement), signed by the independent public accountants who have certified the Company's financial statements included in such registration statement, addressed to the Company, to each Participating Stockholder holding Registrable Securities covered by such registration statement, and to the underwriters, if any, covering substantially the same matters with respect to such registration statement (and the prospectus included

therein) and with respect to events subsequent to the date of such financial statements, as are customarily covered in accountants' letters delivered to the underwriters in underwritten public offerings of securities and such other financial matters as the Requisite Registration Participants (or the underwriters, if any) may reasonably request;

(m) otherwise use all reasonable efforts to comply with all applicable rules and regulations of the Commission and make available to its security holders, in each case as soon as practicable, an earnings statement covering a period of at least 12 months, beginning with the

first month after the effective date of such registration statement, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act;

(n) permit any Participating Stockholder holding Registrable Securities covered by such registration statement, which Participating Stockholder, in its sole judgment exercised in good faith, might be deemed to be a controlling person of the Company (within the meaning of the Securities Act or the Exchange Act) to participate in the preparation of such registration statement and to include therein material, furnished to the Company in writing, which in the reasonable judgment of such Participating Stockholder should be included and which is reasonably acceptable to the Company;

(o) promptly notify the Participating Stockholders holding the Registrable Securities covered by such registration statement of the issuance by any state securities commission or other Governmental or Regulatory Authority of any order suspending the qualification or exemption from qualification of any such Registrable Securities under any state securities or "blue sky" law, and use every reasonable effort to obtain the lifting at the earliest possible time of any stop order (whether issued by the Commission or otherwise) suspending the effectiveness of such registration statement or of any order preventing or suspending the use of any preliminary prospectus included therein;

(p) at any time file or make any amendment to such registration statement, or any amendment of or supplement to the prospectus included therein (including amendments of the documents incorporated by reference into the prospectus), (i) of which each Participating Stockholder holding Registrable Securities covered by such registration statement or the managing underwriter, if any, shall not have previously been advised and furnished a copy or (ii) to which the Requisite Registration Participants, the managing underwriter (if any) or counsel for the Requisite Registration Participants or any such managing underwriter shall reasonably object;

(q) make such representations and warranties (subject to appropriate disclosure schedule exceptions) to the Participating Stockholders holding Registrable Securities covered by such registration statement and the underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters and selling holders, as the case may be, in underwritten public offerings of substantially the same type;

(r) during the period when the prospectus included in such registration statement is required to be delivered under the Securities Act, promptly file all documents required to be filed with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act; and

(s) if such registration statement refers to any Participating Stockholder holding Registrable Securities covered thereby by name or otherwise as the holder of any securities of the Company, then (whether or not, in the sole judgment, exercised in good faith, of such Participating Stockholder, such Participating Stockholder is or might be deemed to be a controlling person of the Company), (i) at the request of such Participating Stockholder, insert therein language, in form and substance reasonably satisfactory to such Participating

Stockholder, the Company and the managing underwriter (if any), to the effect that the holding by such Participating Stockholder of such securities is not to be construed as a recommendation by such Participating Stockholder of the investment quality of the Company's Registrable Securities or the Company's other securities covered thereby and that such holding does not imply that such Participating Stockholder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Participating Stockholder by name or otherwise is not required by the Securities Act, any similar Federal or state statute, or any rule or regulation of any Governmental or Regulatory Authority having jurisdiction over the offering, then in force, the Company shall be required at the request of such Participating Stockholder to delete the reference to such Participating Stockholder.

ARTICLE V
REGISTRATION EXPENSES

5.1 FEES AND EXPENSES GENERALLY. Subject to the next succeeding sentence, all expenses incident to the Company's performance of or compliance with this Agreement, including internal expenses (including all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual or special audit or quarterly review, the expense of any liability insurance, the expenses and fees for listing securities on one or more securities exchanges or quotation systems pursuant to clause (g) of Article IV, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), printing expenses, messenger and delivery expenses, and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters (excluding underwriting fees, discounts and commissions) and other Persons retained by the Company (all such expenses being herein called "REGISTRATION EXPENSES"), will be borne by the Company. Notwithstanding anything in this Agreement to the contrary, each Participating Stockholder shall pay any underwriting fees, discounts or commissions attributable to the sale of its Registrable Securities.

5.2 COUNSEL FEES. In connection with each Demand Registration, the Company will reimburse the Participating Stockholders for the reasonable fees and disbursements of one counsel selected by the Requisite Registration Participants.

ARTICLE VI
UNDERWRITTEN OFFERINGS

6.1 DEMAND UNDERWRITTEN OFFERINGS. If requested by the underwriters for any underwritten offering of Registrable Securities pursuant to a Demand Registration, the Company will enter into an underwriting agreement with such underwriters for such offering, such agreement to be consistent with the terms hereof, to contain such representations and warranties by the Company and such other terms as are generally included in agreements of this type, including indemnities customarily included in such agreements, and to be otherwise

reasonably satisfactory in form and substance to the Requisite Registration Participants, the Company and the underwriters. The Participating Stockholders holding the Registrable Securities to be distributed by such underwriters will cooperate in good faith with the Company in the negotiation of the underwriting agreement. The Participating Stockholders holding the Registrable Securities to be distributed by such underwriters shall be parties to such underwriting agreement and may, at the option of the Requisite Registration Participants, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to

and for the benefit of such Participating Stockholders and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement also be conditions precedent to the obligations of such Participating Stockholders. The Company shall cooperate as reasonably requested by any such Participating Stockholder in order to limit (a) any representations or warranties to, or agreements with, the Company or the underwriters to be made by such Participating Stockholder only to representations, warranties or agreements regarding such Participating Stockholder, such Participating Stockholder's Registrable Securities and such Participating Stockholder's intended method of distribution and any other representation required by applicable law and (b) such Participating Stockholder's maximum liability in respect of its indemnification and contribution obligations under such underwriting agreement to an amount equal to the net proceeds actually received by such Participating Stockholder (after deducting any underwriting fees, discounts and expenses) from the sale of Registrable Securities pursuant to such Demand Registration.

6.2 INCIDENTAL UNDERWRITTEN OFFERINGS. If the Company at any time proposes to register any of its equity securities under the Securities Act as contemplated by Article II and such equity securities are to be distributed by or through one or more underwriters, the Company will, if requested by any Participating Stockholder as provided in Article II, arrange for such underwriters to include all the Registrable Securities to be offered and sold by such Participating Stockholder, subject to the limitations set forth in Article II, among the securities to be distributed by such underwriters. The Participating Stockholders holding Registrable Securities to be distributed by such underwriters shall be parties to the underwriting agreement between the Company and such underwriters (provided that such underwriting agreement is consistent with the terms hereof), and may, at their option, require that any or all of the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters shall also be made to and for the benefit of such Participating Stockholders and that any or all of the conditions precedent to the obligations of such underwriters under such underwriting agreement also be conditions precedent to the obligations of such Participating Stockholders. The Company shall cooperate as reasonably requested by any such Participating Stockholder in order to limit (a) any representations or warranties to, or agreements with, the Company or the underwriters to be made by such Participating Stockholder only to representations, warranties or agreements regarding such Participating Stockholder, such Participating Stockholder's Registrable Securities and such Participating Stockholder's intended method of distribution and any other representation required by applicable law and (b) such Participating Stockholder's maximum liability in respect of its indemnification and contribution obligations under such underwriting agreement to an amount equal to the net proceeds actually received by such Participating Stockholder (after deducting any

underwriting fees, discounts and expenses) from the sale of Registrable Securities pursuant to the applicable Piggyback Registration.

ARTICLE VII
INDEMNIFICATION

7.1 INDEMNIFICATION BY THE COMPANY. The Company agrees to indemnify and hold harmless, to the fullest extent permitted by law, each of the Participating Stockholders holding any Registrable Securities covered by a registration statement that has been filed with the Commission pursuant to this Agreement, each underwriter for such Participating Stockholder in connection therewith, each other Person, if any, who controls such Participating Stockholder or any such underwriter within the meaning of the Securities Act or the Exchange Act, and each of their respective managers, partners, officers, directors, employees and general partners, as follows:

(i) against any and all loss, liability, claim, damage or expense (other than amounts paid in settlement) incurred by such Person arising out of or based upon an untrue statement or alleged untrue statement of a material fact contained in such registration statement (or any amendment or

supplement thereto), including all documents incorporated therein by reference, or in any preliminary prospectus or prospectus included therein (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense incurred by such Person to the extent of the aggregate amount paid in settlement of any litigation, investigation or proceeding by any Governmental or Regulatory Authority, in each case whether commenced or threatened, or of any claim whatsoever, that is based upon any such untrue statement or omission or any such alleged untrue statement or omission, if such settlement is effected with the written consent of the Company (which consent shall not be unreasonably withheld or delayed); and

(iii) against any and all expense incurred by such Person in connection with investigating, preparing or defending against any litigation or any investigation or proceeding by any Governmental or Regulatory Authority, in each case whether commenced or threatened in writing, or against any claim whatsoever, that is based upon any such untrue statement or omission or any such alleged untrue statement or omission, to the extent that any such expense is not paid under clause (i) or (ii) above;

PROVIDED, HOWEVER, that this indemnity does not apply to any loss, liability, claim, damage or expense to the extent arising out of or based upon an untrue statement or alleged untrue statement

or omission or alleged omission made in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Participating Stockholder expressly for use in the preparation of such registration statement (or any amendment or supplement thereto), including all documents incorporated therein by reference, or in any preliminary prospectus or prospectus included therein (or any amendment or supplement thereto); and PROVIDED FURTHER, HOWEVER, that the Company will not be liable to any Participating Stockholder (or any other indemnified Person) under the indemnity agreement in this Section 7.1, with respect to any preliminary prospectus or the final prospectus or the final prospectus as amended or supplemented, as the case may be, to the extent that any such loss, liability, claim, damage or expense of such Participating Stockholder (or other indemnified Person) results from the fact that such Participating Stockholder sold Registrable Securities to a Person to whom there was not sent or given, at or prior to the written confirmation of such sale, a copy of the final prospectus or of the final prospectus as then amended or supplemented, whichever is most recent, if the Company has previously and timely furnished copies thereof to such Participating Stockholder. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any Participating Stockholder or any other Person eligible for indemnification under this Section 7.1, and shall survive the transfer of the relevant Registrable Securities by the Participating Stockholder who theretofore held them.

7.2 INDEMNIFICATION BY A SELLING SHAREHOLDER. In connection with any registration statement which covers Registrable Securities of a Participating Stockholder pursuant to this Agreement, each such Participating Stockholder agrees to indemnify and hold harmless (in the same manner and to the same extent as set forth in Section 7.1 of this Agreement), to the extent permitted by law, the Company and each underwriter for the Company or any such Participating Stockholder in connection therewith, each other Person who controls the Company or any such underwriter within the meaning of the Securities Act or the Exchange Act, and each of their respective managers, officers, directors and general partners, with respect to any statement or alleged statement in or omission or alleged omission from such registration

statement, any preliminary, final or summary prospectus contained therein, or any amendment or supplement thereto or to any such prospectus, if such statement or alleged statement or omission or alleged omission was made in reliance upon and in conformity with written information that relates only to such Participating Stockholder and its affiliates or the plan of distribution and that is furnished to the Company by or on behalf of such Participating Stockholder expressly for use in the preparation of such registration statement, preliminary, final or summary prospectus or amendment or supplement. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any other Person eligible under this Section 7.2, and shall survive the transfer of Registrable Securities by such Participating Stockholder. The obligations of each Participating Stockholder pursuant to this Section 7.2 are to be several and not joint. Additionally, with respect to each claim pursuant to this Section 7.2 and each corresponding claim for contribution under Section 7.5, each such Participating Stockholder's maximum aggregate liability under this Section 7.2 and Section 7.5 shall be limited to an amount equal to the net proceeds actually received by such Participating Stockholder (after deducting any underwriting fees, discounts and expenses) from the sale of Registrable Securities being sold pursuant to such registration statement or prospectus by such Participating Stockholder.

7.3 INDEMNIFICATION PROCEDURE. Within 10 days after receipt by an indemnified party hereunder of written notice of the commencement of any action or proceeding involving a claim referred to in Section 7.1 or 7.2, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party, give written notice to the latter of the commencement of such action; PROVIDED, HOWEVER, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations under Section 7.1 or 7.2, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. In case any such action or proceeding is brought against an indemnified party, the indemnifying party will be entitled to participate in and to assume the defense thereof, jointly with any other indemnifying party similarly notified, with counsel reasonably satisfactory to such indemnified party; and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party for any legal fees and expenses subsequently incurred by the latter in connection with the defense thereof, unless in such indemnified party's reasonable judgment an actual or potential conflict of interest between such indemnified and indemnifying parties may exist in respect of such claim, in which case the indemnifying party shall not assume the defense of such claim but also shall not be liable for the fees and expenses of (i) in the case of a claim referred to in Section 7.1, more than one counsel (in addition to any local counsel) for all indemnified parties selected by the holders of a majority (by number of shares) of the Registrable Securities held by such indemnified parties, or (ii) in the case of a claim referred to in Section 7.2, more than one counsel (in addition to any local counsel) for the Company, in each case in connection with any one action or separate but similar or related actions or proceedings. An indemnifying party who is not entitled to (pursuant to the immediately preceding sentence), or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel (in addition to any local counsel) for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party an actual or potential conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the fees and expenses of such additional counsel or counsels as may be reasonable in light of such conflict. The indemnifying party will not, without the prior written consent of each indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit, investigation or proceeding in respect of which indemnification may be sought hereunder (whether or not such indemnified party or any Person who controls such indemnified party is a party to such claim, action, suit, investigation or proceeding), unless such settlement, compromise or consent includes an unconditional release of such indemnified party from all liability arising out of such claim, action, suit, investigation or proceeding. An indemnified party will not settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit, investigation or proceeding in respect of which it is then seeking (or thereafter seeks) indemnification

hereunder, in each case without the prior written consent of the indemnifying party (which consent shall not be unreasonably withheld or delayed). Notwithstanding anything to the contrary set forth herein, and without limiting any of the rights set forth above, an indemnified party hereunder will have the right to retain, at its own expense, counsel with respect to the defense of a claim.

7.4 UNDERWRITING AGREEMENT. The Company and each Participating Stockholder requesting registration of all or any part of its Registrable Securities pursuant to Article I or II, shall provide for the foregoing indemnity (with appropriate modifications) in any underwriting agreement entered into in connection with a Demand Registration or a Piggyback Registration with respect to any required registration or other qualification of Registrable Securities under any Federal or state law or regulation of any Governmental or Regulatory Authority.

7.5 CONTRIBUTION. If the indemnification provided for in Sections 7.1 and 7.2 of this Agreement is unavailable to hold harmless an indemnified party under such Section, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages, liabilities and expenses referred to in Section 7.1 or 7.2, as the case may be, in such proportion as is appropriate to reflect the relative fault of such indemnifying party, on the one hand, and such indemnified party, on the other hand, in connection with statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations, including the relative benefits received by each party from the offering of the securities covered by the relevant registration statement, the parties' relative knowledge and access to information concerning the matter with respect to which the relevant claim was asserted and the parties' relative opportunities to correct and prevent any relevant statement or omission. Without limiting the generality of the foregoing, the parties' relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or the indemnified party and the parties' relative intent, knowledge, access to relevant information and opportunity to correct or prevent such alleged untrue or untrue statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 7.5 were to be determined by pro rata or per capita allocation (even if the underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the first and second sentences of this Section 7.5. The amount paid by an indemnified party as a result of the losses, claims, damages, liabilities or expenses referred to in the first sentence of this Section 7.5 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending the relevant action or proceeding and shall be limited as provided in Section 7.3 if the indemnifying party has assumed the defense of the relevant action or proceeding in accordance with the provisions of Section 7.3. Promptly after receipt by an indemnified party under this Section 7.5 of notice of the commencement of any action or proceeding against such party in respect of which a claim for contribution may be made against an indemnifying party under this Section 7.5, such indemnified party shall notify the indemnifying party in writing of the commencement thereof if the notice specified in Section 7.3 has not been given with respect to such action or proceeding; PROVIDED, HOWEVER, that the omission to so notify the indemnifying party shall not relieve the indemnifying party from any liability which it may otherwise have to any indemnified party under this Section 7.5, except to the extent that the indemnifying party is actually prejudiced by such failure to give notice. The Company and the Participating Stockholders agree with each other, and will agree with and the

underwriters of Registrable Securities registered pursuant to Article I or

II, if requested by such underwriters, that (i) the underwriters' portion of the contribution paid to the Participating Stockholders pursuant to this Section 7.5 shall not exceed the total underwriting fees, discounts and commissions in connection with the relevant offering of Registrable Securities and (ii) the total amount of such Participating Stockholder's contributions under this Section 7.5 and any amounts paid by such Participating Stockholder in respect of corresponding claims for indemnification under Section 7.2 shall not exceed an amount equal to the net proceeds actually received by such Participating Stockholder from the sale of Registrable Securities in the offering to which the losses, liabilities, claims, damages or expenses of the indemnified parties relate. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

7.6 PERIODIC PAYMENTS. The indemnification required by this Article VII shall be made by periodic payments of the amount thereof during the course of the relevant investigation or defense, as and when bills are received or expense, loss, damage or liability is incurred; PROVIDED, HOWEVER, that if it is finally determined by a court of competent jurisdiction that the relevant indemnified party was not entitled to indemnification hereunder in respect of such investigation or defense, such indemnified party shall repay to the indemnifying party, on demand, all amounts received by it in respect of such investigation or defense pursuant to this Section 7.6, together with interest thereon at a rate per annum equal to the "prime rate" (as published from time to time in the Wall Street Journal) for the period from and including the date on which the indemnified party received the relevant amount to but excluding the date on which it repaid such amount to the indemnifying party.

ARTICLE VIII
RULE 144

The Company shall file all reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder (or, if the Company is not required to file such reports, it will, upon the request of any Participating Stockholder, make publicly available other information), and it will take such further action as any Participating Stockholder may reasonably request, all to the extent required from time to time to enable such Participating Stockholder to sell shares of Registrable Securities without registration under the Securities Act in compliance with (i) Rule 144 under the Securities Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the Commission. Upon the request of any Participating Stockholder, the Company will deliver to such Participating Stockholder a written statement as to whether it has complied with such requirements.

ARTICLE IX
PARTICIPATION IN UNDERWRITTEN REGISTRATIONS

No Participating Stockholder may participate in any underwritten registration

hereunder unless such Participating Stockholder (i) agrees to sell its Registrable Securities on the basis provided in any underwriting arrangements approved by the Person or Persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements, escrow agreements and other documents reasonably required under the terms of such underwriting arrangements and consistent with the provisions of this Agreement. If the Requesting Investors with respect to any Demand Registration are subsequently not entitled to participate in such Demand Registration solely by reason of their failure to comply with any material requirement of this Article IX then, notwithstanding anything in Section 1.1(b) or 1.3 to the contrary, the request by such Requesting Investors for such Demand Registration shall continue to be counted for purposes of Section 1.2.

ARTICLE X
DEFINITIONS

10.1 TERMS. As used in this Agreement, the following defined terms shall have the meanings set forth below:

"ADDITIONAL STOCKHOLDER" means any person to whom the Company has granted registration rights in compliance with Section 1.6 and who has executed a Registration Rights Joinder Agreement in substantially the form of Exhibit A, so long as any such person shall hold Registrable Securities.

"BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the State of New York or California are authorized or obligated to close.

"COMMISSION" means the U.S. Securities and Exchange Commission.

"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 and 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, liquidation or winding up, either to all or to a share of the balance of payments upon such dissolution, liquidation or winding up.

"EQUITY EQUIVALENTS" means any securities (other than employee options) which, by their terms, are or may be exercisable, convertible or exchangeable for or into Common Stock at the election of the holder thereof.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, or any similar Federal statute then in effect, and any reference to a particular section thereof shall include a reference to a comparable section, if any, of any such similar Federal statute, and the rules and regulations thereunder.

"FULLY-DILUTED BASIS" means with respect to the calculation of the number of shares of Common Stock, (i) all shares of Common Stock outstanding at the time of determination, (ii) all shares of Common Stock issuable upon the exercise, conversion or exchange of any Equity Equivalents outstanding at the time of determination and (iii) all shares of Common Stock issuable upon the exercise, conversion or exchange of any securities that are issuable upon the exercise, conversion or exchange of any Equity Equivalents outstanding at the time of determination.

"ORIGINAL OWNERSHIP LEVEL" has the meaning ascribed to it in the Stockholders' Agreement.

"PARTICIPATING STOCKHOLDERS" means the REI Stockholders and any Additional Stockholders or transferee of any of the foregoing persons who has acquired Registrable Securities and who has executed a Registration Rights Joinder 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 of which such Stockholder is the trustee 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;

(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, (w) any other REI Stockholder, (x) any general partner or limited partner of REI (and any subsequent transferee of such partner), (y) any partner, member, director, officer, employee or investment advisor of any such general partner or limited partner, (z) any Affiliate of any such general partner or limited partner, (ww) any director, officer, employee, investment advisor, partner or member of any such Affiliate, and (xx) 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.

"PRO RATA" means, with respect to one or more Participating Stockholders, in proportion to the number of shares of Common Stock on a Fully-Diluted Basis owned by such Participating Stockholder or Stockholders or which may be acquired by any such Participating Stockholder or Stockholders upon exercising any rights under any Equity Equivalent owned by such Participating Stockholder or Stockholders.

"REGISTRABLE SECURITIES" means, at any time of determination, (i) the shares of Common Stock then issued and outstanding or which are issuable upon the conversion, exercise or exchange of Equity Equivalents, (ii) any then outstanding securities into which shares of Common Stock shall have been changed and (iii) any then outstanding securities resulting from any reclassification or recapitalization of Common Stock; PROVIDED, HOWEVER, that "REGISTRABLE SECURITIES" shall not include any shares of Common Stock or other securities obtained or transferred pursuant to an effective registration statement under the Securities Act or in a Rule 144 Transaction; and PROVIDED FURTHER, HOWEVER, that "REGISTRABLE SECURITIES" shall not include any shares of Common Stock or other securities which are held by a Person who is not a Participating Stockholder.

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

"REQUESTING INVESTORS" means, with respect to any Demand Registration, the Required REI Stockholders that have requested such Demand Registration in accordance with Section 1.1.

"REQUISITE REGISTRATION PARTICIPANTS" means, with respect to any Demand Registration or Piggyback Registration, Participating Stockholders which then hold Registrable Securities representing at least a majority (by number of shares) of the Registrable Securities requested to be included in such Demand Registration (whether as Requesting Investors or otherwise) or Piggyback Registration pursuant to Section 1.1 or 2.1, as applicable.

"REQUIRED REI STOCKHOLDERS" means, as of the date of any determination thereof, REI Stockholders which then hold Registrable Securities representing at least a majority (by number of shares) of the Registrable Securities on a Fully-Diluted Basis, then held by all REI Stockholders.

"REQUISITE REQUESTING INVESTORS" means, as of the date of any determination thereof with respect to any Demand Registration, Requesting Investors which then hold a majority (by number of shares) of the Registrable Securities, on a Fully-Diluted Basis, then held by all Requesting Investors of such Demand Registration.

"RESTRICTED SECURITIES" means the Common Stock, any Equity Equivalents and any securities issued with respect to any of the foregoing 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.

"RULE 144 TRANSACTION" means a transfer of Common Stock (a) complying with Rule 144 under the Securities Act (or any successor statute or rule) as such Rule (or such successor statute or rule, as the case may be) is in

effect on the date of such transfer (but not including a sale other than pursuant to a "brokers transaction" as defined in clauses (1) and (2) of paragraph (g) of such Rule as in effect on the date hereof) and (b) occurring at a time when

shares of Common Stock are registered pursuant to Section 12 of the Exchange Act (or any successor to such Section).

"SECURITIES ACT" means the Securities Act of 1933, as amended, or any similar Federal statute then in effect, and any reference to a particular section thereof shall include a reference to a comparable section, if any, of any such similar Federal statute, and the rules and regulations thereunder.

"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.

"TRANSFER" means any direct or indirect sale, transfer, assignment, grant of a participation in, gift, hypothecation, pledge or other disposition of any Restricted Security or any interest 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 Restricted Security or any interest therein.

10.2 OTHER DEFINED TERMS. Unless otherwise defined herein, capitalized terms used in this Agreement shall have the respective meanings assigned to them in the Stock Purchase Agreement.

10.3 DEFINED TERMS IN CORRESPONDING SECTIONS. The following defined terms, when used in this Agreement, shall have the meaning ascribed to them in the corresponding Sections of this Agreement listed below:

"Black-Out Notice"	--	Section 1.7(b)
"Company"	--	Preamble
"Demand Registration"	--	Section 1.1
"Investment Agreements"	--	Recitals
"Long-Form Registration"	--	Section 1.1(a)
"Piggyback Registration"	--	Section 2.1
"Registration Expenses"	--	Section 5.1
"REI"	--	Preamble
"Short-Form Registration"	--	Section 1.1(a)
"Stock Purchase Agreement"	--	Recitals

ARTICLE XI
MISCELLANEOUS

11.1 NO INCONSISTENT AGREEMENTS. The Company represents and warrants that it does not currently have, and covenants that it will not hereafter enter into any Contract which is inconsistent with, or would otherwise restrict the performance by the Company of, its obligations hereunder.

11.2 ADJUSTMENTS AFFECTING REGISTRABLE SECURITIES.

The Company will use all reasonable efforts not to take any action, and not to fail to take any action which it may properly take, with respect to its securities if such action or failure to act would adversely affect (a) the ability of the holders of Registrable Securities to include Registrable Securities in a registration undertaken pursuant to this Agreement or (b) to the extent within the Company's control, would adversely affect the marketability of such Registrable Securities in any such registration (it being understood that the actions referred to in this Section 11.2 include effecting a stock split or a combination of shares).

11.3 SPECIFIC PERFORMANCE. The parties hereto agree that

irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties hereto shall be entitled to specific performance of the terms hereof, in addition to any other remedy that may be available to any of them at law or equity; PROVIDED, HOWEVER, that each of the parties hereto agrees to provide the other parties hereto with written notice at least two Business Days prior to filing any motion or other pleading seeking a temporary restraining order, a temporary or permanent injunction, specific performance, or any other equitable remedy and to give the other parties hereto and their counsel a reasonable opportunity to attend and participate in any judicial or administrative hearing or other proceeding held to adjudicate or rule upon any such motion or pleading.

11.4 AMENDMENTS AND WAIVERS. Except as otherwise provided herein, no modification, amendment or waiver of any provision of this Agreement will be effective against the Company or any holder of Registrable Securities or Restricted Securities, unless such modification, amendment or waiver is approved in writing by the Company and the Required REI Stockholders. Each of the Participating Stockholders and the Company shall be bound by each modification, amendment or waiver authorized in accordance with this Section 11.4, regardless of whether the certificates evidencing the Registrable Securities or the Restricted Securities shall have been marked to indicate such modification, amendment or waiver. The failure of any party hereto to enforce any of the provisions of this Agreement will in no way be construed as a waiver of such provisions and will not affect the right of such party thereafter to enforce each and every provision of this Agreement in accordance with its terms.

11.5 SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. In addition, whether or not any express assignment has been made, the provisions of this Agreement which are for the benefit of purchasers or holders of Registrable Securities are also for the benefit of, and enforceable by, any subsequent holder of Registrable Securities, except to the extent reserved to or by the transferor in connection with any such transfer; PROVIDED, HOWEVER, that the benefits of this Agreement shall inure to and be enforceable by any transferee of Registrable Securities only if such transferee shall have executed a Registration Rights Joinder Agreement substantially in the form of Exhibit A hereto.

11.6 NOTICES. 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 prepaid first class certified mail, return receipt requested or mailed by reputable overnight courier, fee prepaid, to the parties at the following addresses or facsimile numbers:

(a) if to the Company, to:

QAD Inc.
6450 Via Real
Carpinteria, CA 93013-2924
Facsimile No: (805)
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.

(b) if to any REI Stockholder, to:

Recovery Equity Investors II, L.P.
901 Mariners Island Boulevard, Suite 465
San Mateo, CA 94404
Facsimile No: (650) 578-9842
Attn: Joseph J. Finn-Egan
Jeffrey A. Lipkin

with a copy to:

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

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section 11.6, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section 11.6, be deemed given upon receipt, (iii) if delivered by mail in the manner described above to the address as provided in this Section 11.6, be deemed given on the earlier of the third full Business Day following the day of mailing or upon receipt, and (iv) if delivered by overnight courier to the address provided in this Section 11.6, be deemed given on the earlier of the first Business Day following the date sent by such overnight courier or upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice is to be delivered pursuant to this Section 11.6). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

11.7 HEADINGS, CERTAIN CONVENTIONS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit any terms or provisions hereof. Unless the context otherwise expressly requires, all references herein to Articles, Sections and Exhibits are to Articles 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."

11.8 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. 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.

11.9 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, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (iii) 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 (iv) 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.

11.10 GOVERNING LAW. 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.

11.11 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.

11.12 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 WITHOUT LIMITATION 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.

11.13 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.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of 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

[Signature Page to Registration Rights Agreement]

EXHIBIT A

Form of Registration Rights Joinder Agreement

QAD Inc.
6450 Via Real
Carpinteria, CA 93013-2924
Attention: Chief Financial Officer

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 Registration Rights 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 an Additional Stockholder for all purposes thereof.

Executed as of the day of , .

SIGNATORY:

Address:

ACKNOWLEDGED AND
ACCEPTED:

QAD INC.

By
Name:
Title:

EXHIBIT 10.48

ENTERPRISE ENGINES, INC.
STOCK PURCHASE AGREEMENT

dated as of December 15, 1999

by and among

QAD INC.

("Purchaser")

and

DAVID A. TAYLOR

("SELLER")

and

ENTERPRISE ENGINES, INC.

("COMPANY")

with respect to

One Hundred Percent of the Outstanding Common Stock of

ENTERPRISE ENGINES, INC.

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STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT dated as of December 15, 1999 is made and entered into by and among QAD Inc., a Delaware corporation ("PURCHASER") and DAVID A. TAYLOR ("SELLER") and ENTERPRISE ENGINES, INC. (the "COMPANY"). Capitalized terms not otherwise defined herein have the meanings set forth in SECTION 9.1.

WHEREAS, Seller owns Two Million One Hundred (2,000,100) shares of common stock, without par value, of the Company, constituting One Hundred Percent (100%) of the issued and outstanding shares of common stock of the Company (such shares being referred to herein as the "SHARES"); and

WHEREAS, Seller desires to sell, and Purchaser desires to purchase, all of the Shares on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

SALE OF SHARES AND CLOSING

1.1 PURCHASE AND SALE. Seller agrees to sell to Purchaser, and Purchaser agrees to purchase from Seller, all of the right, title and interest of Seller in and to the Shares at the Closing on the terms and subject to the conditions set forth in this Agreement.

1.2 PURCHASE PRICE. The consideration for the purchase of the Shares is: (i) ONE MILLION DOLLARS ($1,000,000), payable FIVE HUNDRED THOUSAND DOLLARS ($500,000) in immediately available funds at the Closing, as hereinafter defined, in the manner provided in SECTION 1.3, together with a one (1) year Promissory Note in the form attached hereto as EXHIBIT A (the "PROMISSORY NOTE"), and (ii) the issuance of up to One Hundred Twenty Thousand (120,000) shares of the Purchaser's common stock, upon the achievement of the Milestones as set forth in the Escrow Agreement in the form attached hereto as EXHIBIT B (the "QAD STOCK") to be deposited in escrow with Santa Barbara Bank & Trust and to be released as the Milestones are reached or returned to the Purchaser if the Milestones are not achieved (the cash payment, the Promissory Note and the QAD Stock are collectively referred to as the "PURCHASE PRICE"). The Seller will be responsible for all ordinary income taxes and capital gains taxes which may be due as a result of receipt of the Purchase Price.

1.3 CLOSING. The Closing will take place at the offices of Purchaser, 6450 Via Real, Carpenteria, California, U.S.A. 93103, or at such other place as Purchaser and Seller mutually agree, on the Closing Date, as hereinafter defined. At the Closing, Purchaser will pay the Purchase Price by wire transfer of immediately available funds to such account as Seller may reasonably direct by written notice delivered to Purchaser by Seller at least two (2) Business Days before the Closing Date. Simultaneously, Seller will assign and transfer to Purchaser all of Seller's right, title and interest in and to the Shares by delivering to Purchaser a certificate or certificates representing the Shares, in genuine and unaltered form, duly endorsed in the name of Purchaser or its designee. At the Closing, there shall also be delivered to Seller and Purchaser the opinions, certificates and other documents and instruments to be delivered under ARTICLE VI.

1.4 FURTHER ASSURANCES; POST-CLOSING COOPERATION. At any time or from time to time after the Closing, Seller shall execute and deliver to Purchaser such other documents and instruments, provide such materials and information and take such other actions as Purchaser may reasonably request more effectively to vest title to the Shares in Purchaser and, to the full extent permitted by Law, to put Purchaser in actual possession and operating control of the Company and

its Assets and Properties and Books and Records, and otherwise to cause Seller to fulfill his obligations under this Agreement to which he is a party. The obligation of Seller under this SECTION 1.4 shall survive until two (2) years following the Closing Date.

1.5 SELLER'S RETENTION OF CERTAIN RIGHTS. The Seller wishes to secure certain Intellectual Property rights from the Company which the Seller was instrumental in creating, and Purchaser is agreeable to the Company's divestment of such Intellectual Property rights, as follows. The Company hereby agrees to assign, effective as of immediately following the Closing without any further action required on the part of any of Seller, Purchaser or the Company, all its right, title and interest in and to (collectively, the "Divested IP"): (i) the trademark "Convergent Engineering" (the "Name"); (ii) the copyright to the book, "Business Engineering With Object Technology" (the "Book"); and (iii) any royalty or license agreements associated with the Name and/or the Book. Company and Purchaser agree to execute any documents reasonably necessary to vest in the Seller all such right, title and interest in and to the Divested IP. Except for the Divested IP, Seller has no other rights to the Company or its Assets and Properties. The Company shall retain, and, together with Seller, hereby grants to Purchaser, effective as of the Closing, transferable, worldwide, non-exclusive, royalty-free, licenses to make, use and sell the Divested IP in the state Divested IP exists at the Closing, whether or not utilized independently or included in the Purchaser's software products. The license includes all rights necessary to utilize the Company's and the Purchaser's software and create derivative works in and to the Divested IP and to create appropriate documentation, training and marketing materials. The parties hereto agree and acknowledge that the value of the Divested IP is $5,000.00. Except as provided herein, the Seller has no other rights to the Company or its Assets and Properties.

1.6 COMPANY SOURCE CODE. The Seller acknowledges that it has deposited into Escrow with Robert Stephens the Company's Enterprise Engine Source Code which will be delivered by Robert Stephens to the Purchaser upon the Closing.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLER

Except with respect to any contract, arrangement or understanding between the Company and Purchaser, as to which Seller makes no representation, warranty or covenant, Seller hereby represents and warrants to Purchaser as follows:

2.1 AUTHORITY. The execution and delivery by Seller of this Agreement to which he is a party, and the performance by Seller of his obligations hereunder and thereunder, have been duly and validly authorized by the Seller, no other action on the part of Seller being necessary. This Agreement has been duly and validly executed and delivered by Seller and constitutes the legal, valid and binding obligations of Seller enforceable against Seller in accordance with its terms.

2.2 ORGANIZATION OF THE COMPANY. The Company is a corporation duly organized, validly existing and in good standing under the State of California, and has full corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its Assets and Properties. SECTION 2.2 OF THE DISCLOSURE SCHEDULE lists all lines of business in which the Company is participating or engaged. The Company is duly qualified, licensed or admitted to do business and is in good standing in the State of California, which is the only jurisdiction in which the ownership, use or leasing of its Assets and Properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary, except for those jurisdictions in which the adverse effects of all such failures by the Company to be qualified, licensed or admitted and in good standing can in the aggregate be eliminated without material cost or expense by the Company, as the case may be, becoming qualified or admitted and in good standing. The name of each director and officer of the Company on the date hereof, and the position with the Company held by each, are listed in SECTION 2.2 OF THE DISCLOSURE SCHEDULE. Seller has prior to the execution of this Agreement delivered to Purchaser true and complete copies of the Articles of Incorporation and the Bylaws of the Company

as in effect on the date hereof.

2.3 CAPITAL STOCK. The authorized capital stock of the Company consists solely of Forty Million (40,000,000) shares of Common Stock, of which only the Shares have been issued, and of which the Shares represent One Hundred Percent (100%) of the entire outstanding common stock of the Company, and Twenty Million (20,000,000) shares of Preferred Stock. Shares of Series A Preferred Stock have been authorized, of which One Million (1,000,000) is outstanding. The Shares are duly authorized, validly issued, outstanding, fully paid and nonassessable. Seller owns the Company Shares, beneficially and of record, free and clear of all Liens. Except for options or warrants disclosed in SECTION 2.3 of the Disclosure Schedule, there are no outstanding stock options or warrants or other securities or debt which is convertible into common stock. The delivery of a certificate or certificates at the Closing representing the Shares in the manner provided in SECTION 1.3 will transfer to Purchaser good and valid title to the Shares, free and clear of all Liens.

2.4 SUBSIDIARIES. The Company does not have, nor has it ever had, any Subsidiaries.

2.5 NO CONFLICTS. The execution and delivery by Seller of this Agreement do not conflict with the performance by Seller of his obligations under this Agreement and the consummation of the transactions contemplated hereby and thereby will not:

(a) conflict with or result in a violation or breach of any of the terms, conditions or provisions of the articles of incorporation or by-laws (or other comparable corporate charter documents) of the Company or any Subsidiary;

(b) conflict with or result in a violation or breach of any term or provision of any Law or Order applicable to Seller, the Company or any Subsidiary or any of their respective Assets and Properties; or

(c) except as disclosed in SECTION 2.5 OF THE DISCLOSURE SCHEDULE, (i) conflict with or result in a violation or breach of, (ii) constitute (with or without notice or lapse of time or both) a default under, (iii) require Seller, the Company or any Subsidiary to obtain any consent, approval or action of, make any filing with or give any notice to any Person as a result or under the terms of, (iv) result in or give to any Person any right of termination, cancellation, acceleration or modification in or with respect to, (v) result in or give to any Person any additional rights or entitlement to increased, additional, accelerated or guaranteed payments under, or (vi) result in the creation or imposition of any Lien upon the Company or any Subsidiary or any of their respective Assets and Properties under, any material Contract or License to which Seller, the Company or any Subsidiary is a party or by which any of their respective Assets and Properties is bound.

2.6 GOVERNMENTAL APPROVALS AND FILINGS. No consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of Seller, the Company or any Subsidiary is required in connection with the execution, delivery and performance of this Agreement to which it is a party or the consummation of the transactions contemplated hereby or thereby.

2.7 BOOKS AND RECORDS. The minute books and other similar records of the Company as made available to Purchaser prior to the execution of this Agreement contain a true and complete record, in all material respects, of all action taken at all meetings and by all written consents in lieu of meetings of the stockholders, the boards of directors and committees of the boards of directors of the Company. The stock transfer ledgers, stock option schedules, and other similar records of the Company as made available to Purchaser prior to the execution of this Agreement accurately reflect all record transfers prior to the execution of this Agreement in the capital stock of the Company. The Company has not recorded, stored, maintained, operated or otherwise wholly or partly dependent upon or held any of its Books and Records by any means (including any electronic, mechanical or photographic process, whether computerized or not) which (including all means of access thereto and therefrom) are not under the exclusive ownership and direct control of the Company.

2.8 FINANCIAL STATEMENTS; ASSETS AND LIABILITIES. Prior to the execution of this Agreement, Seller has delivered to Purchaser a true and complete copy of the unaudited balance sheet of the Company as of November 30, 1999, a copy of which is attached hereto as EXHIBIT C, and the related unaudited statements of operations, stockholders' equity and cash flows for the portion of the fiscal year then ended.

Except as set forth in the notes thereto, all such financial statements (i) were prepared in accordance with GAAP, (ii) fairly present the consolidated financial condition and results of operations of the Company as of the respective dates thereof and for the respective periods covered thereby, and (iii) were compiled from the Books and Records of the Company regularly maintained by management and used to prepare the financial statements of the Company in accordance with the principles stated therein. The Company has maintained its Books and

Records in a manner sufficient to permit the preparation of financial statements in accordance with GAAP.

2.9 ABSENCE OF CHANGES. Except for the execution and delivery of this Agreement and the transactions to take place pursuant hereto and thereto on or prior to the Closing Date, since the Financial Statement Date there has not been any material adverse change, or any event or development which, individually or together with other such events, could reasonably be expected to result in a material adverse change, in the Business or Condition of the Company. Without limiting the foregoing, there has not occurred between the Financial Statement Date and the date hereof:

(i) any declaration, setting aside or payment of any dividend or other distribution in respect of the capital stock of the Company, or any direct or indirect redemption, purchase or other acquisition by the Company of any such capital stock of or any Option with respect to the Company;

(ii) any authorization, issuance, sale or other disposition by the Company of any shares of capital stock of or Option with respect to the Company, or any modification or amendment of any right of any holder of any outstanding shares of capital stock of or Option with respect to the Company;

(iii) (A) incurrences by the Company of Indebtedness in an aggregate principal amount exceeding $25,000 (net of any amounts discharged during such period), or (B) any voluntary purchase, cancellation, prepayment or complete or partial discharge in advance of a scheduled payment date with respect to, or waiver of any right of the Company under, any Indebtedness of or owing to the Company;

(iv) any physical damage, destruction or other casualty loss (whether or not covered by insurance) affecting any of the real or personal property or equipment of the Company or any Subsidiary in an aggregate amount exceeding $25,000;

(v) any material change in (x) any pricing, investment, accounting, financial reporting, inventory, credit, allowance or Tax practice or policy of the Company, or (y) any method of calculating any bad debt, contingency or other reserve of the Company for accounting, financial reporting or Tax purposes, or any change in the fiscal year of the Company;

(vi) any write-off or write-down of or any determination to write off or write down any of the Assets and Properties of the Company in an aggregate amount exceeding $25,000;

(vii) any acquisition or disposition of, or incurrence of a Lien (other than a Permitted Lien) on, any Assets and Properties of the Company, other than in the ordinary course of business consistent with past practice;

(viii) any (x) amendment of the certificate or acts of incorporation or by-laws (or other comparable corporate charter documents) of the Company, (y) recapitalization, reorganization, liquidation or dissolution of the Company or (z) merger or other business combination involving the Company and any other Person;

(ix) any entering into, amendment, modification, termination (partial or complete) or granting of a waiver under or giving any consent with respect to (A) any Contract which is required (or had it been in effect on the date hereof would have been required) to be disclosed in the Disclosure Schedule pursuant to SECTION 2.18(A) or (B) any material License held by the Company;

(x) capital expenditures or commitments for additions to property, plant or equipment of the Company constituting capital assets in an aggregate amount exceeding $25,000;

(xi) any commencement or termination by the Company of any line of business;

(xii) any transaction by the Company with Seller, any officer, director or Affiliate (other than the Company) of Seller (A) other than on an arm's-length basis, other than pursuant to any Contract in effect on the Financial Statement Date and disclosed pursuant to SECTION 2.18(A)(VII) OF THE DISCLOSURE SCHEDULE;

(xiii) any entering into of a Contract to do or engage in any of the foregoing after the date hereof;

(xiv) any other transaction involving or development affecting the Seller outside the ordinary course of business consistent with past practice; or

(xv) any increase in the annual level of compensation of any employee whose compensation from the Company in the last preceding fiscal year exceeded $50,000, or any grant of any unusual or extraordinary bonuses, benefits or other forms of direct or indirect compensation to any current or former employee, officer, director or consultant, except in amounts in keeping with past practices by formulas or otherwise.

2.10 NO UNDISCLOSED LIABILITIES. To the Knowledge of Seller, Except as reflected or reserved against in the balance sheet included in the Financial Statements or in the notes thereto or as disclosed in SECTION 2.10 OF THE DISCLOSURE SCHEDULE, there are no Liabilities against, relating to or affecting the Company or any of its Assets and Properties, other than Liabilities which, individually or in the aggregate, are not material to the Business or Condition of the Company.

2.11 TAXES. The Company has filed all Tax Returns which are required to have been filed in any jurisdiction, and have paid all Taxes shown to be due and payable on the Tax Returns and all other Taxes payable by the Company to the extent the same have become due and payable and before they have become delinquent. The Seller knows of no proposed material Tax assessment against the Company and all Tax liabilities are adequately provided for on the Books and Records of the Company. There are no pending or, to the Knowledge of Seller, threatened Actions or Proceedings against the Company with respect to any Taxes. With respect to any Tax audits, the Company has not received any adverse notice or communication of any kind or nature whatsoever from any Governmental or Regulatory Authority with respect to any Tax Returns filed by the Company. No Liens for Taxes (other than with respect to Taxes not yet due and payable) encumber any of the Assets and Properties of the Company.

2.12 LEGAL PROCEEDINGS.

(a) there are no Actions or Proceedings pending or, to the Knowledge of Seller, threatened against, relating to or affecting Seller, the Company or any Subsidiary or any of their respective Assets and Properties which (i) could reasonably be expected to result in the issuance of an Order restraining, enjoining or otherwise prohibiting or making illegal the

consummation of any of the transactions contemplated by this Agreement or otherwise result in a material diminution of the benefits contemplated by this Agreement, or (ii) if determined adversely to the Company, could reasonably be expected to result in (x) any injunction or other equitable relief against the Company that would interfere in any material respect with its business or operations or (y) Losses by the Company or any Subsidiary, individually or in the aggregate with Losses in respect of other such Actions or Proceedings, exceeding $5,000;

(b) there are no facts or circumstances Known to Seller that could reasonably be expected to give rise to any Action or Proceeding that would be required to be disclosed pursuant to clause (a) above; and

(c) there are no Orders outstanding against the Company.

2.13 COMPLIANCE WITH LAWS AND ORDERS. The Company is not and has not at any time within the last five (5) years been, or has received any notice that it is or has at any time within the last five (5) years been, in violation of or in default under, in any material respect, any Law or Order applicable to the Company or any of its Assets and Properties.

2.14 BENEFIT AND COMPENSATION PLANS. The Company has a Section 401-K Employee Benefit Plan, a copy of which has been made available to Purchaser, and has no other employee benefit or compensation plans except as set forth in SECTION 2.14 OF THE DISCLOSURE SCHEDULE.

2.15 REAL PROPERTY.

(a) SECTION 2.15(A) OF THE DISCLOSURE SCHEDULE contains a true and correct list of each parcel of real property leased by the Company. The Company owns no real property.

(b) The Company has adequate rights of ingress and egress with respect to the real property listed in SECTION 2.15(A) OF THE DISCLOSURE SCHEDULE and all buildings, structures, facilities, fixtures and other improvements thereon. To the Knowledge of Seller, none of such real property, buildings, structures, facilities, fixtures or other improvements, or the use thereof, contravenes or violates any building, zoning, administrative, occupational safety and health or other applicable Law in any material respect (whether or not permitted on the basis of prior nonconforming use, waiver or variance).

(c) The Company has a valid and subsisting leasehold estate in and the right to quiet enjoyment of the real properties leased by it for the full term of the lease thereof. Each lease referred to in paragraph (a) above is a legal, valid and binding agreement, enforceable in accordance with its terms, of the Company and, to the Knowledge of Seller, of each other Person that is a party thereto, and, there is no, and the Company has not received notice of any, default (or any condition or event which, after notice or lapse of time or both, would constitute a default)

thereunder. The Company does not owe any brokerage commissions with respect to any such leased space.

(d) Seller has delivered to Purchaser prior to the execution of this Agreement true and complete copies of all leases (including any amendments and renewal letters).

(e) The improvements on the real property identified in SECTION 2.15(A) OF THE DISCLOSURE SCHEDULE are in good operating condition and in a state of good maintenance and repair, ordinary wear and tear excepted, are adequate and suitable for the purposes for which they are presently being used and, to the Knowledge of Seller, there are no condemnation or appropriation proceedings pending or threatened against any of such real property or the improvements thereon.

2.16 TANGIBLE PERSONAL PROPERTY; INVESTMENT ASSETS.

(a) The Company is in possession of and has good title to, or

has valid leasehold interests in or valid rights under Contract to use, all tangible personal property used in or reasonably necessary for the conduct of their business, including all tangible personal property reflected on the balance sheet included in the Financial Statements and tangible personal property acquired since the Financial Statement Date other than property disposed of since such date in the ordinary course of business consistent with past practice. All such tangible personal property is free and clear of all Liens, other than Permitted Liens, and is in good working order and condition, ordinary wear and tear excepted, and its use complies in all material respects with all applicable Laws.

(b) SECTION 2.16(B) OF THE DISCLOSURE SCHEDULE describes each Investment Asset owned by the Company on the date hereof. Except as disclosed in SECTION 2.16(B) OF THE DISCLOSURE SCHEDULE, all such Investment Assets are owned by the Company free and clear of all Liens other than Permitted Liens.

2.17 INTELLECTUAL PROPERTY.

(a) To the Knowledge of Seller, Company owns, or is licensed or otherwise entitled to exercise pursuant to the terms of a license or other similar agreement identified in SECTION 2.17(A) OF THE DISCLOSURE SCHEDULE, all rights to all Intellectual Property used in the Business as currently conducted or in connection with products to be used in the Business currently under development without any conflict or infringement of the rights of others. The source code created by Company and included within the Assets and Properties of the Company constitutes a trade secret of Company, and as a whole, is not part of the public knowledge or literature, and Company has taken reasonable action to protect such source code as a trade secret and has not been disclosed to any party or retained by any party other than the Company. In addition, Company has taken reasonable and practicable steps (including, without limitation, entering into confidentiality and non-disclosure agreements with all officers and employees of and consultants to Seller) to maintain the secrecy and confidentiality of and its proprietary rights in, Company's trade secrets. Furthermore, all of the employees of Company that have participated in the development or creation of any of the Company's Intellectual Property are listed in SECTION 2.17(A) OF THE DISCLOSURE SCHEDULE, and each such employee has already

entered, or will prior to the Closing enter, into agreements with Company whereby each such employee assigns any and all of his or her rights in the Intellectual Property created pursuant to his or her employment with the Company.

(b) In addition to the foregoing, SECTION 2.17(B) OF THE DISCLOSURE SCHEDULE lists (i) all patents and patent applications and all registered copyrights, trade names, trademarks, service marks and other company, product or service identifiers included in Company's Intellectual Property, and specifies the jurisdictions in which each such Company's Intellectual Property has been registered, including the respective registration numbers; (ii) other than nonexclusive end user licenses entered into in the ordinary course of business, all licenses, sublicenses and other agreements as to which Company is a party and pursuant to which Company or any other person is authorized to use any of Company's Intellectual Property; and (iii) all licenses relating to the Business under which Company is or may be obligated to make royalty or other payments. Copies of all licenses, sublicenses, and other agreements identified pursuant to clauses (ii) and (iii) above have been delivered by Company to Purchaser.

(c) To the Knowledge of Seller, Company is not in violation in any material respect of any license, sublicense or agreement described in SECTION 2.17 OF THE DISCLOSURE SCHEDULE. As a result of the execution and delivery of this Agreement or the performance of Company's obligations hereunder or thereunder, to Company's and Seller's knowledge, Company will not be in violation in any material respect of any license, sublicense or agreement described in SECTION 2.17 OF THE DISCLOSURE SCHEDULE, or lose or in any way impair any rights pursuant thereto.

(d) To the Knowledge of Seller, Company is the owner or a licensee of, with all necessary right, title and interest in and to (free and

clear of any liens, encumbrances or security interests) all Intellectual Property being used or proposed to be used in the Business in connection with products currently under development, and has rights to the use, sale, license or disposal thereof in connection with the services or products in respect of which such Intellectual Property are used.

(e) No claims with respect to the Intellectual Property used in the Business have been asserted to Company, or, to Company's and Seller's knowledge, are threatened by any person, and Seller knows of no claims (i) to the effect that Company in the conduct of the Business infringes any copyright, patent, trade secret, or other intellectual property right of any third party or violates any license or agreement with any third party, (ii) contesting the right of Company to use, sell, license or dispose of any Intellectual Property used in the Business, or (iii) challenging the ownership, validity or effectiveness of any of the Intellectual Property used in the Business.

(f) To the Knowledge of Seller, all trademarks, service marks, and other company, product or service identifiers held by Company and used in the Business are valid and subsisting.

(g) To the Knowledge of Seller, there has not been and there is not now any unauthorized use, infringement or misappropriation of any of Company's Intellectual Property by any third party, including, without limitation, any service provider of Company; Company has

not been sued or, to Company's and Seller's knowledge, charged as a defendant in any claim, suit, action or proceeding that involves a claim of infringement of any patents, trademarks, service marks, copyrights or other intellectual property rights. To Company's and Seller's knowledge, Company does not have any infringement liability due to its conduct of the Business with respect to any patent, trademark, service mark, copyright or other intellectual property right of another.

(h) To the Knowledge of Seller, none of Company's Intellectual Property is subject to any outstanding order, judgment, decree, stipulation or agreement restricting in any material manner the licensing thereof by Company. Company has not entered into any agreement to indemnify any other person against any charge of infringement of any Intellectual Property, except in the ordinary course of business. Company has not entered into any agreement granting any third party the right to bring infringement actions with respect to, or otherwise to enforce rights with respect to, any of Company's Intellectual Property. Company has the exclusive right to file, prosecute and maintain all applications and registrations with respect to Company's Intellectual Property developed or owned by Company.

(i) No person has a license to use or the right to acquire a license to use any future version of any Company product used in or sold by the Business or any such Company product that is under development, and no agreement to which Company is a party will restrict Purchaser from charging customers for any such new version. SECTION 2.17(I) OF THE DISCLOSURE SCHEDULE separately identifies each exclusive arrangement between Company and any third party to use, license, sublicense, sell or distribute any of Company's Intellectual Property or any Company products sold or distributed by the Business.

2.18 CONTRACTS. SECTION 2.18 OF THE DISCLOSURE SCHEDULE contains a true and complete list of each of Contracts or other arrangements (true and complete copies or reasonably complete and accurate written descriptions of, together with all amendments and supplements thereto and all waivers of any terms thereof, have been made available to Purchaser prior to the execution of this Agreement), to which the Company is a party or by which any of its Assets and Properties are bound which (i) has a value in excess of $10,000.00 and (ii) is not listed in any other section of the DISCLOSURE SCHEDULE.

2.19 LICENSES. SECTION 2.19 OF THE DISCLOSURE SCHEDULE contains a true and complete list of all Licenses used in and material, individually or in the aggregate, to the business or operations of the Company (and all pending applications for any such Licenses), setting forth the grantor, the grantee, the function and the expiration and renewal date of each. Prior to the execution of this Agreement, Seller has delivered to Purchaser true and complete copies of

all such Licenses. Except as disclosed in SECTION 2.19 OF THE DISCLOSURE SCHEDULE:

(i) the Company owns or validly holds all Licenses that are material, individually or in the aggregate, to its business or operations;

(ii) each License listed in SECTION 2.19 OF THE DISCLOSURE SCHEDULE is valid, binding and in full force and effect; and

(iii) neither the Company is, or has received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default) under any such License.

2.20 INSURANCE. SECTION 2.20 OF THE DISCLOSURE SCHEDULE contains a true and complete list of all liability, property, workers' compensation, directors' and officers' liability and other insurance policies currently in effect that insure the business, operations or employees of the Company or affect or relate to the ownership, use or operation of any of the Assets and Properties of the Company and that (i) have been issued to the Company or (ii) have been issued to any Person (other than the Company) for the benefit of the Company. The insurance coverage provided by any of the policies described in clause (i) above will not terminate or lapse by reason of the transactions contemplated by this Agreement. Each policy listed in SECTION 2.20 OF THE DISCLOSURE SCHEDULE is valid and binding and in full force and effect, no premiums due thereunder have not been paid and neither the Company, nor the Person to whom such policy has been issued has received any notice of cancellation or termination in respect of any such policy or is in default thereunder. The insurance policies listed in SECTION 2.20 OF THE DISCLOSURE SCHEDULE are, in light of the respective business, operations and Assets and Properties of the Company, in amounts and have coverages that are reasonable and customary for Persons engaged in such businesses and operations and having such Assets and Properties. Neither the Company, nor the Person to whom such policy has been issued has received notice that any insurer under any policy referred to in this Section is denying liability with respect to a claim thereunder or defending under a reservation of rights clause.

2.21 AFFILIATE TRANSACTIONS. Except as disclosed in SECTION 2.18(a)(VII) OR SECTION 2.21(a) OF THE DISCLOSURE SCHEDULE, (i) there are no intercompany Liabilities between the Company, on the one hand, and Seller, any present or former officer, director or Affiliate (other than the Company) of Seller, on the other, (ii) neither Seller nor any such present or former officer, director or Affiliate provides or causes to be provided any assets, services or facilities to the Company, (iii) the Company does not provide or cause to be provided any assets, services or facilities to Seller or any such present or former officer, director or Affiliate and (iv) the Company does not beneficially own, directly or indirectly, any Investment Assets issued by Seller or any such present or former officer, director or Affiliate. Except as disclosed in SECTION 2.21(b) OF THE DISCLOSURE SCHEDULE, each of the Liabilities and transactions listed in SECTION 2.21(a) OF THE DISCLOSURE SCHEDULE was incurred or engaged in, as the case may be, on an arm's-length basis. Except as disclosed in SECTION 2.21(c) OF THE DISCLOSURE SCHEDULE, since the Financial Statement Date, all settlements of intercompany Liabilities between the Company, on the one hand, and Seller or any such present or former officer, director or Affiliate, on the other, have been made, and all allocations of intercompany expenses have been applied, in the ordinary course of business consistent with past practice. Since November 30, 1999, the Company has not made any distributions to Seller other than normal payroll or expense reimbursement.

2.22 EMPLOYEES; LABOR RELATIONS. There are no outstanding claims pending or, to the Knowledge of Seller, asserted by or against the Company by any employee, consultant or former employee or former consultant of the Company.

2.23 ENVIRONMENTAL MATTERS. To the Knowledge of Seller, the Company has obtained all Licenses which are required under applicable Environmental Laws in connection with the conduct of the business or operations of the Company. Each of such Licenses is in full force and

effect and the Company is in compliance in all material respects with the terms and conditions of all such Licenses and with any applicable Environmental Law. In addition, to the Knowledge of Seller:

(a) No Order has been issued, no Environmental Claim has been filed, no penalty has been assessed and no investigation or review is pending or, to the Knowledge of Seller, threatened by any Governmental or Regulatory Authority with respect to any alleged failure by the Company to have any License required under applicable Environmental Laws in connection with the conduct of the business or operations of the Company or with respect to any generation, treatment, storage, recycling, transportation, discharge, disposal or Release of any Hazardous Material generated by the Company or any Subsidiary, and to the Knowledge of Seller, there are no facts or circumstances in existence which could reasonably be expected to form the basis for any such Order, Environmental Claim, penalty or investigation.

(b) The Company has not transported or arranged for the transportation of any Hazardous Material to any location that is the subject of enforcement actions by Governmental or Regulatory Authorities that may lead to Environmental Claims against the Company.

(c) No Hazardous Material generated by the Company has been recycled, treated, stored, disposed of or Released by the Company at any location.

(d) No Liens have arisen under or pursuant to any Environmental Law on any site or facility owned, operated or leased by the Company, and no Governmental or Regulatory Authority action has been taken or, to the Knowledge of Seller, is in process that could subject any such site or facility to such Liens, and the Company would not be required to place any notice or restriction relating to the presence of Hazardous Materials at any site or facility owned by it in any deed to the real property on which such site or facility is located.

(e) There have been no environmental investigations, studies, audits, tests, reviews or other analyses conducted by, or that are in the possession of, the Company in relation to any site or facility now or previously owned, operated or leased by the Company which have not been delivered to Purchaser prior to the execution of this Agreement.

2.24 BANK AND BROKERAGE ACCOUNTS; INVESTMENT ASSETS. SECTION 2.24 OF THE DISCLOSURE SCHEDULE sets forth (a) a true and complete list of the names and locations of all banks, trust companies, securities brokers and other financial institutions at which the Company has an account or safe deposit box or maintains a banking, custodial, trading or other similar relationship; (b) a true and complete list and description of each such account, box and relationship, indicating in each case the account number and the names of the respective officers, employees, agents or other similar representatives of the Company having signatory power with respect thereto; and (c) a list of each Investment Asset, the name of the record and beneficial owner thereof, the location of the certificates, if any, therefor, the maturity date, if any, and any stock or bond powers or other authority for transfer granted with respect thereto.

2.25 NO POWERS OF ATTORNEY. Except as set forth in SECTION 2.25 OF THE DISCLOSURE SCHEDULE, the Company does not have any powers of attorney or comparable delegations of authority outstanding.

2.26 ACCOUNTS RECEIVABLE. Except as set forth in SECTION 2.26 OF THE DISCLOSURE SCHEDULE, the accounts and notes receivable of the Company reflected on the balance sheet included in the Financial Statements, and all accounts and notes receivable arising subsequent to the Financial Statement Date, (i) arose from bona fide sales transactions in the ordinary course of business and are payable on ordinary trade terms, (ii) are legal, valid and binding obligations of the respective debtors enforceable in accordance with their terms, (iii) are

not subject to any valid set-off or counterclaim, (iv) do not represent obligations for goods sold on consignment, on approval or on a sale-or-return basis or subject to any other repurchase or return arrangement, (v) are collectible in the ordinary course of business consistent with past practice in the aggregate recorded amounts thereof, net of any applicable reserve reflected in the balance sheet included in the Financial Statements, and (vi) are not the subject of any Actions or Proceedings brought by or on behalf of the Company. SECTION 2.26 OF THE DISCLOSURE SCHEDULE sets forth a description of any security arrangements and collateral securing the repayment or other satisfaction of receivables of the Company. All steps necessary to render all such security arrangements legal, valid, binding and enforceable, and to give and maintain for the Company, as the case may be, a perfected security interest in the related collateral, have been taken.

2.27 BROKERS. All negotiations relative to this Agreement and the transactions contemplated hereby have been carried out by Seller directly with Purchaser without the intervention of any Person on behalf of Seller in such manner as to give rise to any valid claim by any Person against Purchaser or the Company for a finder's fee, brokerage commission or similar payment.

2.28 DISCLOSURE. To the Knowledge of Seller, all material facts relating to the Business or Condition of the Company have been disclosed by the Seller to the Purchaser in or in connection with this Agreement. No representation or warranty contained in this Agreement, and no statement contained in the Disclosure Schedule or in any certificate, list or other writing furnished to Purchaser pursuant to any provision of this Agreement (including without limitation the Financial Statements), contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements herein or therein, in the light of the circumstances under which they were made, not misleading.

2.29 WARRANTIES AND INDEMNITIES. SECTION 2.29 OF THE DISCLOSURE SCHEDULE sets forth a summary of all warranties and indemnities, express or implied, relating to products sold or services rendered by the Company, and no warranty or indemnity has been given by the Company that is not listed on SECTION 2.29 OF THE DISCLOSURE SCHEDULE or which differs therefrom in any respect. The Company is in compliance with all warranties described in SECTION 2.29 OF THE DISCLOSURE SCHEDULE. SECTION 2.29 OF THE DISCLOSURE SCHEDULE also indicates all warranty and indemnity claims currently pending against the Company.

2.30 CONFIDENTIALITY AGREEMENTS. All present or former employees, consultants, officers and directors of the Company that have had access to the Proprietary Assets of the Company are parties to a written agreement (a "CONFIDENTIALITY AGREEMENT"), under which each such Person (i) is obligated to disclose and transfer to the Company, without the receipt by such Person of any additional value therefor (other than normal salary or fees for consulting services), all inventions, developments and discoveries which, during the period of employment with or performance of services for the Company, he or she makes or conceives of either solely or

jointly with others, that relate to any subject matter with which his or her work for the Company may be concerned, and (ii) is obligated to maintain the confidentiality of proprietary information of the Company. To the Knowledge of Seller, none of the Company's present or former employees, consultants, officers or directors is obligated under any Contract (including licenses, covenants or commitments of any nature), or subject to any judgment, decree or Order of any Governmental or Regulatory Authority, that would conflict with their obligation to promote the interests of the Company with regard to their business or the proprietary assets. To the Knowledge of Seller, neither the execution nor the delivery of this Agreement, nor the carrying on of the Company's business by its present or former employees and consultants, will conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such Persons are now obligated. It is currently not necessary nor will it be necessary for the Company to utilize any inventions of any of such Persons (or Persons the Company currently intends to hire) made or owned prior to their employment by or affiliation with the Company, nor is it or will it be necessary to utilize any other assets or rights of any such

persons or entities (or Persons the Company currently intends to hire) made or owned prior to their employment with or engagement by the Company, in violation of any registered patents, trade names, trademarks or copyrights or any other limitations or restrictions to which any such persons or entity is a party or to which any of such assets or rights may be subject. To the Knowledge of Seller, none of the Company's present or former employees, consultants, officers, directors or shareholders that has had knowledge or access to information relating to the proprietary assets has taken, removed or made use of any Proprietary Assets, or any other tangible item from his or her previous employer relating to the proprietary assets by such previous employer which has resulted in the Company's access to or use of such proprietary items included in the Proprietary Assets, and the Company will not gain access to or make use of any such proprietary items in their business.

2.31 PRODUCTS. Each of the products and services produced, sold or provided by the Company is, and at all times has been, in compliance in all material respects with all applicable Laws and, to the Knowledge of the Seller, at all relevant times has been fit for the ordinary purposes for which it is intended to be used and conforms in all material respects to any promises or affirmations of fact made in connection with the sale of such product or service.

2.32 PRODUCT LIABILITY. There are no claims, actions, suits, inquiries, proceedings or investigations pending by or against the Company, or threatened by or against relating to the Company's products and containing allegations that such products are defective or were improperly designed or manufactured or improperly labeled or otherwise improperly described for use.

2.33 YEAR 2000 COMPLIANCE. Seller represents and warrants that Seller owned and controlled business systems ("SELLER'S SYSTEMS") that are part of the Business will not have a material interruption of operations due to a Year 2000 problem provided items not owned and controlled by Seller properly exchange date data with the Seller's Systems. Such warranty shall remain in place up to and including one hundred eighty (180) days following January 1, 2000.

2.34 SELLER'S INVESTMENT REPRESENTATIONS. The Seller understands that the sale of the QAD Stock has not been registered under the Securities Act of 1933, as amended (the "Securities Act") or qualified under the California Corporations Code (the "Code") in reliance upon

exemptions therefrom the nonpublic offerings. The Seller understands that the QAD Stock must be held indefinitely unless the sale thereof is subsequently registered or qualified under the Act and the Code and applicable state securities laws or exemptions from such registration or qualification are available. The QAD Stock is being purchased solely for the Seller's own account for investment and not for the account of any other person and not for distribution, assignment or resale to others or a view to distribution to others and no other person has a direct or indirect beneficial interest in the QAD Stock, and the certificates representing the QAD Stock will bear appropriate restrictive legends.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller as follows:

3.1 ORGANIZATION. Purchaser is a corporation duly organized, validly existing and in good standing under the Laws of the State of Delaware. Purchaser has full corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby.

3.2 AUTHORITY. The execution and delivery by Purchaser of this Agreement, and the performance by Purchaser of its obligations hereunder, have been duly and validly authorized by the Board of Directors of Purchaser, no other corporate action on the part of Purchaser or its stockholders being

necessary. This Agreement has been duly and validly executed and delivered by Purchaser and constitutes a legal, valid and binding obligation of Purchaser enforceable against Purchaser in accordance with its terms.

3.3 NO CONFLICTS. The execution and delivery by Purchaser of this Agreement and the performance by the Purchaser of its obligations under this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in a violation or breach of any of the terms, conditions or provisions of the certificate of incorporation or by-laws (or other comparable corporate charter document) of Purchaser.

3.4 GOVERNMENTAL APPROVALS AND FILINGS. Except for routine filings with the Securities and Exchange Commission (the "SEC") that may be required pursuant to the Securities Exchange Act of 1934, as amended, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority on the part of Purchaser is required in connection with the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

3.5 QAD STOCK. The QAD Stock will be duly authorized, issued and outstanding, and fully paid and non-assessable.

3.6 REPORTS; FINANCIAL STATEMENTS. Each registration statement, report, proxy statement or information statement prepared by Purchaser since January 31, 1999, including Purchaser's Annual Report on Form 10-K for the years ended January 31, 1999 and Purchaser's Quarterly Reports on Form 10-Q for the quarters ended April 30, 1999 and July 31, 1999 in the form (including exhibits, annexes and any amendments thereto) filed with the SEC (collectively,

including any such reports filed subsequent to the date of this Agreement, "Purchaser's Reports") complied as to form with all applicable requirements under the Securities Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations thereunder and did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances in which they were made, not misleading. Each of the consolidated balance sheets included in or incorporated by reference into Purchaser's Reports (including the related notes and schedules) fairly presents the consolidated financial position of Purchaser and its Subsidiaries as of its date and each of the consolidated statements of income, shareholders' investment and cash flows included in or incorporated by reference into Purchaser's Reports (including any related notes and schedules) fairly presents the consolidated results of operations, statement of shareholders' investment and cash flows, as the case may be, of Purchaser and its Subsidiaries for the periods set forth therein (subject, in the case of unaudited statements, to the absence of notes (to the extent permitted by the rules applicable to Form 10-Q) and to normal year-end audit adjustments that will not be material in amount or effect), in each case in accordance with GAAP consistently applied during the periods involved, except as may be noted therein.

3.7 ABSENCE OF CERTAIN CHANGES. Except as disclosed in Purchaser's Reports filed prior to the date of this Agreement or in any press releases made by Purchaser, since January 31, 1999, there has not been: (i) any material change in the financial condition, liabilities and assets (taken together), business or results of operations of Purchaser and its Subsidiaries; (ii) any material damage, destruction or other casualty loss with respect to any asset or property owned, leased or otherwise used by Purchaser or any of its Subsidiaries, whether or not covered by insurance; or (iii) any change by Purchaser in accounting principles, practices or methods, except as required by GAAP.

ARTICLE IV

COVENANTS OF SELLER, THE COMPANY AND PURCHASER

The Seller and the Company covenant and agree with the Purchaser that, at all times from and after the date hereof until the Closing, they will comply

with the following covenants:

4.1 REGULATORY AND OTHER APPROVALS. The Seller and the Company will as promptly as practicable (a) take all commercially reasonable steps necessary or desirable to obtain all consents, approvals or actions of, make all filings with and give all notices to Governmental or Regulatory Authorities or any other Person required of the Seller, the Company to consummate the transactions contemplated hereby, including without limitation those described in SECTIONS 2.6 AND 2.7 OF THE DISCLOSURE SCHEDULE, (b) provide such other information and communications to such Governmental or Regulatory Authorities or other Persons as the Purchaser or such Governmental or Regulatory Authorities or other Persons may reasonably request in connection therewith and (c) cooperate with Purchaser in connection with the performance of its obligations under SECTIONS 6.1(B) AND (C). The Seller and the Company will provide prompt notification to the Purchaser when any such consent, approval, action, filing or notice referred to in clause (a) above is obtained, taken, made or given, as applicable, and will advise the Purchaser of any communications (and, unless precluded by Law, provide copies of any such communications that

are in writing) with any Governmental or Regulatory Authority or other Person regarding any of the transactions contemplated by this Agreement.

4.2 INVESTIGATION BY PURCHASER. The Seller and the Company (a) provide the Purchaser and its officers, directors, employees, agents, counsel, accountants, financial advisors, consultants and other representatives (together "REPRESENTATIVES") with full access, upon reasonable prior notice and during normal business hours, to all officers, employees, agents and accountants of the Company and its Assets and Properties and Books and Records, and (b) furnish the Purchaser and such other Persons with all such information and data (including without limitation copies of Contracts, Benefit Plans and other Books and Records) concerning the business and operations of the Company as the Purchaser or any of such other Persons reasonably may request in connection with such investigation.

4.3 NO SOLICITATIONS. The Seller and the Company will not take, nor will they permit the Company or any Affiliate of Seller (or authorize or permit any investment banker, financial advisor, attorney, accountant or other Person retained by or acting for or on behalf of the Seller, the Company or any such Affiliate) to take, directly or indirectly, any action to solicit, encourage, receive, negotiate, assist or otherwise facilitate (including by furnishing confidential information with respect to the Company or permitting access to the Assets and Properties and Books and Records of the Company) any offer or inquiry from any Person concerning an Acquisition Proposal. If the Seller, the Company or any such Affiliate (or any such Person acting for or on their behalf) receives from any Person any offer, inquiry or informational request referred to above, the Seller and the Company will promptly advise such Person, by written notice, of the terms of this SECTION 4.3 and will promptly, orally and in writing, advise the Purchaser of such offer, inquiry or request and deliver a copy of such notice to the Purchaser.

4.4 CONDUCT OF BUSINESS. The Seller and the Company will cause the Company to conduct business only in the ordinary course consistent with past practice. Without limiting the generality of the foregoing, Seller and the Company will:

(a) cause the Company to use commercially reasonable efforts to (i) preserve intact the present business organization and reputation of the Company, (ii) keep available (subject to dismissals and retirements in the ordinary course of business consistent with past practice) the services of the present officers, employees and consultants of the Company, (iii) maintain the Assets and Properties of the Company in good working order and condition, ordinary wear and tear excepted, (iv) maintain the good will of customers, suppliers, lenders and other Persons to whom the Company sells goods or provides services or with whom the Company otherwise has significant business relationships and (v) continue all current sales, marketing and promotional activities relating to the business and operations of the Company;

(b) except to the extent required by applicable Law, (i) cause

the Books and Records to be maintained in the usual, regular and ordinary manner, (ii) not permit any material change in (A) any pricing, investment, accounting, financial reporting, inventory, credit, allowance or Tax practice or policy of the Company, or (B) any method of calculating any bad debt, contingency or other reserve of the Company for accounting, financial reporting or Tax purposes and (iii) not permit any change in the fiscal year of the Company;

(c) (i) use, and will cause the Company to use, commercially reasonable efforts to maintain in full force and effect until the Closing substantially the same levels of coverage as the insurance afforded under the Contracts listed in SECTION 2.18 OF THE DISCLOSURE SCHEDULE, (ii) to the extent requested by the Purchaser prior to the Closing Date, use all commercially reasonable efforts to cause such insurance coverage held by any Person (other than the Company) for the benefit of the Company to continue to be provided at the expense of the Company for at least ninety (90) days after the Closing on substantially the same terms and conditions as provided on the date of this Agreement and (iii) cause any and all benefits under such Contracts paid or payable (whether before or after the date of this Agreement) with respect to the business, operations, employees or Assets and Properties of the Company to be paid to the Company; and

(d) cause the Company to comply, in all material respects, with all Laws and Orders applicable to the business and operations of the Company, and promptly following receipt thereof to give the Purchaser copies of any notice received from any Governmental or Regulatory Authority or other Person alleging any violation of any such Law or Order.

4.5 FINANCIAL STATEMENTS AND REPORTS; FILINGS.

(a) As promptly as practicable after the date hereof and before the Closing Date, the Seller will deliver to the Purchaser true and complete copies of such financial statements, reports and analyses as may be prepared or received by Seller or the Company relating to the business or operations of the Company or as the Purchaser may otherwise reasonably request.

(b) As promptly as practicable, the Seller will deliver copies of all License applications and other filings made by the Company after the date hereof and before the Closing Date with any Governmental or Regulatory Authority (other than routine, recurring filings made in the ordinary course of business consistent with past practice).

4.6 CERTAIN RESTRICTIONS. Except as contemplated by this Agreement, the Seller will cause the Company to refrain from:

(a) amending its articles of incorporation or by-laws (or other comparable corporate charter documents) or taking any action with respect to any such amendment or any recapitalization, reorganization, liquidation or dissolution of any such corporation;

(b) authorizing, issuing (except pursuant to the exercise of outstanding options to purchase Common Stock of the Company), selling or otherwise disposing of any shares of capital stock of or any Option with respect to the Company, or modifying or amending any right of any holder of outstanding shares of capital stock of or Option with respect to the Company;

(c) declaring, setting aside or paying any dividend or other distribution in respect of the capital stock of the Company, or directly or indirectly redeeming, purchasing or otherwise acquiring any capital stock of or any Option with respect to the Company;

(d) acquiring or disposing of, or incurring any Lien (other than a Permitted Lien) on, any Assets and Properties;

(e) (i) entering into, amending, modifying, terminating (partially or completely), granting any waiver under or giving any consent with respect to (A) any Contract that would, if in existence on the date of this Agreement, be required to be disclosed in the Disclosure Schedule pursuant to SECTION 2.18 or (B) any material License or (ii) granting any irrevocable powers of attorney;

(f) violating, breaching or defaulting under in any material respect, or taking or failing to take any action that (with or without notice or lapse of time or both) would constitute a material violation or breach of, or default under, any term or provision of any License held or used by the Company or any Contract to which the Company is a party or by which any of its Assets and Properties is bound;

(g) (i) incurring Indebtedness in an aggregate principal amount exceeding $10,000 (net of any amounts of Indebtedness discharged during such period), or (ii) voluntarily purchasing, canceling, prepaying or otherwise providing for a complete or partial discharge in advance of a scheduled payment date with respect to, or waiving any right of the Company under, any Indebtedness of or owing to the Company;

(h) engaging with any Person in any merger or other business combination;

(i) making capital expenditures or commitments for additions to property, plant or equipment constituting capital assets in an aggregate amount exceeding $10,000;

(j) making any change in the lines of business in which they participate or are engaged;

(k) writing off or writing down any of their Assets and Properties;

(l) except as set forth in SECTION 4.6(L) OF THE DISCLOSURE SCHEDULe, modifying any compensation terms or paying any bonuses to a current or former employee, director, consultant or Affiliate; or

(m) entering into any Contract to do or engage in any of the foregoing.

4.7 AFFILIATE TRANSACTIONS. Except as set forth in SECTION 4.7 OF THE DISCLOSURE SCHEDULE, immediately prior to the Closing, all Indebtedness and other amounts owing under Contracts between the Seller, the Company, any officer, director or Affiliate (other than the Company) of Seller, on the one hand, and the Company, on the other, will be paid in full, and Seller will terminate and will cause any such officer, director or Affiliate to terminate each Contract with the Company. Prior to the Closing, the Company will not enter into any Contract or amend or modify any existing Contract, and will not engage in any transaction outside the ordinary course of business consistent with past practice or not on an arm's-length basis (other than pursuant to Contracts disclosed pursuant to SECTION 2.21 OF THE DISCLOSURE SCHEDULE), with Seller, or any such officer, director or Affiliate.

ARTICLE V

COVENANT OF PURCHASER

5.1 FORM S-3. No later than 30 days after the Closing Date, Purchaser shall file with the SEC, at Purchaser's expense a Registration Statement on Form S-3 (the "Registration Statement") or other appropriate form under the Securities Act to register the QAD Stock. Purchaser shall use commercially reasonable efforts to cause the Registration Statement to remain continuously effective, including without limitation by timely making all required filings with the SEC and supplementing the prospectus related to the QAD Stock as necessary, until the earlier to occur of the following: (i) Seller has disposed

of all of the shares of QAD Stock; and (ii) all of the shares of QAD Stock are can be sold within a given 30-day period pursuant to Rule 144 of the Securities Act.

ARTICLE VI

CONDITIONS TO OBLIGATIONS OF PURCHASER AND SELLER

6.1 CONDITIONS TO OBLIGATIONS OF PURCHASER. The obligations of Purchaser hereunder to purchase the Shares are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by Purchaser in its sole discretion):

(a) REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties made by Seller in this Agreement (other than those made as of a specified date earlier than the Closing Date) shall be true and correct in all material respects on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date, and any representation or warranty made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date.

(b) PERFORMANCE. Seller shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with by Seller at or before the Closing.

(c) SELLER'S CERTIFICATES. Seller shall have delivered to Purchaser a certificate, dated the Closing Date and executed in the name and on behalf of Seller, substantially in the form and to the effect of EXHIBIT D hereto.

(d) ORDERS AND LAWS. There shall not be in effect on the Closing Date any Order or Law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or which could reasonably be expected to otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement, and there shall not be pending or threatened on the Closing Date any Action or Proceeding in, before or by any Governmental or Regulatory Authority which could reasonably be expected to result in the issuance of any such Order or the enactment, promulgation or deemed applicability to Purchaser, the Company, or the transactions contemplated by this Agreement of any such Law.

(e) REGULATORY CONSENTS AND APPROVALS. All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority necessary to permit the Seller to perform his obligations under this Agreement and to consummate the transactions contemplated hereby and thereby (a) shall have been duly obtained, made or given, (b) shall be in form and substance reasonably satisfactory to Purchaser, (c) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (d) shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement, shall have occurred.

(f) THIRD PARTY CONSENTS. All consents (or in lieu thereof waivers) to the performance by Purchaser or Seller of their obligations under this Agreement or to the consummation of the transactions contemplated hereby and thereby as are required under any Contract to which Purchaser, Seller or the Company is a party or by which any of their respective Assets and Properties are bound (a) shall have been obtained, (b) shall be in form and substance reasonably satisfactory to Purchaser, (c) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (d) shall be in full force and effect, except where the failure to obtain any such consent (or in lieu thereof waiver) could not reasonably be expected, individually or in the aggregate with other such failures, to materially adversely affect Purchaser or the Business or Condition of the Company or otherwise result in a material diminution of the benefits of the transactions

contemplated by this Agreement.

(g) DUE DILIGENCE. Purchaser's due diligence investigation of the Company shall not have disclosed any matter or matters which, individually or in the aggregate, could reasonably be expected to materially adversely affect the Company or the Business or Conditions of the Company.

(h) RESIGNATIONS OF DIRECTORS AND OFFICERS. Such members of the boards of directors and such officers of the Company as are designated in a written notice delivered prior to the Closing Date by Purchaser to Seller shall have tendered, effective at the Closing, their resignations as such directors and officers.

(i) CONSULTING AGREEMENT. Seller will execute a Consulting Agreement in the form attached hereto as EXHIBIT E (the "CONSULTING AGREEMENT").

(j) RELEASE AGREEMENT. Seller will deliver a Release Agreement, in the form attached hereto as EXHIBIT F, releasing the Company and the Purchaser from all claims and liabilities, except for this Agreement, the Promissory Note, the QAD Stock, the Consulting Agreement and the Noncompetition Agreement (as defined below).

(k) EMPLOYMENT AGREEMENTS. The employees listed in SECTION 6.1(K) OF THE DISCLOSURE SCHEDULE will have executed employment agreements in a form satisfactory to the Purchaser, together with the cancellation of any existing options to purchase shares of the Company.

(l) PROCEEDINGS. All proceedings to be taken on the part of Seller in connection with the transactions contemplated by this Agreement and all documents incident

thereto shall be reasonably satisfactory in form and substance to Purchaser, and Purchaser shall have received copies of all such documents and other evidences as Purchaser may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

(m) SOURCE CODE. The Seller shall have delivered the Source Code for Enterprise Engines to Robert Stephens.

(n) PURCHASER'S LENDER AND BOARD OF DIRECTORS APPROVAL. The Purchaser's lender and the Purchaser's Board of Directors has consented to or approved this Agreement.

(o) NONCOMPETITION AGREEMENT. The Seller shall have executed the Noncompetition Agreement in the form attached hereto as EXHIBIT G (the "Noncompetition Agreement").

(p) GEMSTONE AGREEMENT. The Value-Added Remarketer Agreement between the Company and Gemstone Systems, Inc. (the "GEMSTONE AGREEMENT") shall remain in effect and shall be unaffected by the transactions contemplated herein such that the Purchaser has determined that the Company may receive the full benefit of the Gemstone Agreement and that it is valid and in full force and effect.

6.2 CONDITIONS TO OBLIGATIONS OF SELLER. The obligations of Seller hereunder to sell the Shares are subject to the fulfillment, at or before the Closing, of each of the following conditions (all or any of which may be waived in whole or in part by Seller in its sole discretion):

(a) REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties made by Purchaser in this Agreement (other than those made as of a specified date earlier than the Closing Date) shall be true and correct in all material respects on and as of the Closing Date as though such representation or warranty was made on and as of the Closing Date, and any representation or warranty made as of a specified date earlier than the Closing Date shall have been true and correct in all material respects on and as of such earlier date.

(b) PERFORMANCE. Purchaser shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with by Seller at or before the Closing.

(c) PURCHASER'S CERTIFICATE. Purchaser shall have delivered to Seller a certificate, dated the Closing Date and executed in the name and on behalf of Seller, substantially in the form and to the effect of EXHIBIT H hereto.

(d) ORDERS AND LAWS. There shall not be in effect on the Closing Date any Order or Law restraining, enjoining or otherwise prohibiting or making illegal the consummation of any of the transactions contemplated by this Agreement or which could reasonably be expected to otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement, and there shall not be pending or threatened on the Closing Date any Action or Proceeding in, before or by any Governmental or Regulatory Authority which could reasonably be expected to result in the issuance of any such Order or the enactment,

promulgation or deemed applicability to Purchaser, the Company, or the transactions contemplated by this Agreement of any such Law.

(e) REGULATORY CONSENTS AND APPROVALS. All consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority necessary to permit the Purchaser to perform its obligations under this Agreement and to consummate the transactions contemplated hereby and thereby (a) shall have been duly obtained, made or given, (b) shall be in form and substance reasonably satisfactory to Seller, (c) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (d) shall be in full force and effect, and all terminations or expirations of waiting periods imposed by any Governmental or Regulatory Authority necessary for the consummation of the transactions contemplated by this Agreement, shall have occurred.

(f) THIRD PARTY CONSENTS. All consents (or in lieu thereof waivers) to the performance by Seller or Purchaser of their obligations under this Agreement or to the consummation of the transactions contemplated hereby and thereby as are required under any Contract to which Seller, Purchaser or the Company is a party or by which any of their respective Assets and Properties are bound (a) shall have been obtained, (b) shall be in form and substance reasonably satisfactory to Seller, (c) shall not be subject to the satisfaction of any condition that has not been satisfied or waived and (d) shall be in full force and effect, except where the failure to obtain any such consent (or in lieu thereof waiver) could not reasonably be expected, individually or in the aggregate with other such failures, to materially adversely affect Seller or the Business or Condition of the Company or otherwise result in a material diminution of the benefits of the transactions contemplated by this Agreement.

(g) CONSULTING AGREEMENT. Purchaser shall have executed the Consulting Agreement.

(h) PROCEEDINGS. All proceedings to be taken on the part of Purchaser in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to Seller, and Seller shall have received copies of all such documents and other evidences as Seller may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

(i) THE COMPANY'S BOARD OF DIRECTORS APPROVAL. The Company's Board of Directors shall have consented to or approved this Agreement.

(j) NONCOMPETITION AGREEMENT. Purchaser shall have executed the Noncompetition Agreement.

(k) TERMINATION OF EMPLOYMENT AGREEMENT. The Company and

Seller shall have terminated the Employment Agreement, dated March 26, 1997, between the Company and Seller.

ARTICLE VII

SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS

7.1 SURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS. The representations, warranties, covenants and agreements of Seller and Purchaser contained in this Agreement will survive the Closing for eighteen (18) months; PROVIDED that an Indemnified Party shall be entitled to indemnification in accordance with the terms of this Agreement provided that a Claim Notice or Indemnity Notice (as applicable) is timely given under ARTICLE VIII on or prior to May 15, 2001.

ARTICLE VIII

INDEMNIFICATION

8.1 INDEMNIFICATION.

(a) Subject to paragraph (c) of this Section and the other Sections of this ARTICLE VIII, the Seller shall indemnify the Purchaser Indemnified Parties in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to any breach of representation or warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of Seller, contained in this Agreement.

(b) Subject to the other Sections of this ARTICLE VIII, Purchaser shall indemnify the Seller Indemnified Parties in respect of, and hold each of them harmless from and against, any and all Losses suffered, incurred or sustained by any of them or to which any of them becomes subject, resulting from, arising out of or relating to any breach of representation or warranty or nonfulfillment of or failure to perform any covenant or agreement on the part of Purchaser contained in this Agreement.

(c) No amounts of indemnity shall be payable in the case of a claim by an Indemnified Party, as the case may be, under SECTION 8.2(A) unless and until the Seller or Purchaser Indemnified Parties, as the case may be, have suffered, incurred, sustained or become subject to Losses referred to in such Section in excess of $10,000 in the aggregate; in which event the Indemnified Parties shall be entitled to claim indemnity for the full amount of such Losses; provided in no event shall the aggregate liability under this Article VIII of Purchaser or Seller to indemnify, defend or hold harmless all Indemnified Parties exceed Five Hundred Thousand Dollars ($500,000.00).

(d) The indemnification provisions of this Article VIII shall constitute the sole and exclusive remedy of each party hereto with respect to the breach or falsity of any representation or warranty, or the failure to perform or comply with any covenant or agreement to be performed on or prior to the Closing Date, made by another party hereto in this Agreement or in any certificate delivered pursuant to this Agreement.

8.2 METHOD OF ASSERTING CLAIMS. All claims for indemnification by any Indemnified Party under SECTION 8.2 will be asserted and resolved as follows:

(a) In the event any claim or demand in respect of which an Indemnified Party might seek indemnity under SECTION 8.2 is asserted against or sought to be collected from such Indemnified Party by a Person other than Seller

or any Affiliate of Seller or of Purchaser (a "THIRD PARTY CLAIM"), the Indemnified Party shall deliver a Claim Notice with reasonable promptness to the Indemnifying Party. If the Indemnified Party fails to provide the Claim Notice with reasonable promptness after the Indemnified Party receives notice of such Third Party Claim, the Indemnifying Party will not be obligated to indemnify the Indemnified Party with respect to such Third Party Claim to the extent that the Indemnifying Party's ability to defend has been irreparably prejudiced by such failure of the Indemnified Party. The Indemnifying Party will notify the Indemnified Party as soon as practicable within the Dispute Period whether the Indemnifying Party disputes its liability to the Indemnified Party under SECTION 8.2 and whether the Indemnifying Party desires, at its sole cost and expense, to defend the Indemnified Party against such Third Party Claim.

(i) If the Indemnifying Party notifies the Indemnified Party within the Dispute Period that the Indemnifying Party desires to defend the Indemnified Party with respect to the Third Party Claim pursuant to this SECTION 8.2(A), then the Indemnifying Party will have the right to defend, with counsel reasonably satisfactory to the Indemnified Party, at the sole cost and expense of the Indemnifying Party, such Third Party Claim by all appropriate proceedings, which proceedings will be vigorously and diligently prosecuted by the Indemnifying Party to a final conclusion or will be settled at the discretion of the Indemnifying Party (but only with the consent of the Indemnified Party, which consent will not be unreasonably withheld, in the case of any settlement that provides for any relief other than the payment of monetary damages as to which the Indemnified Party will be indemnified in full). The Indemnifying Party will have full control of such defense and proceedings, including (except as provided in the immediately preceding sentence) any settlement thereof; PROVIDED, HOWEVER, that the Indemnified Party may, at the sole cost and expense of the Indemnified Party, at any time prior to the Indemnifying Party's delivery of the notice referred to in the first sentence of this clause (i), file any motion, answer or other pleadings or take any other action that the Indemnified Party reasonably believes to be necessary or appropriate to protect its interests; and PROVIDED FURTHER, that if requested by the Indemnifying Party, the Indemnified Party will, at the sole cost and expense of the Indemnifying Party, provide reasonable cooperation to the Indemnifying Party in contesting any Third Party Claim that the Indemnifying Party elects to contest. The Indemnified Party may retain separate counsel to represent it in, but not control, any defense or settlement of any Third Party Claim controlled by the Indemnifying Party pursuant to this clause (i), and the Indemnified Party will bear its own costs and expenses with respect to such separate counsel, except as provided in the preceding sentence and except that the Indemnifying Party will pay the costs and expenses of such separate counsel if (x) in the Indemnified Party's good faith judgment, it is advisable, based on advice of counsel, for the Indemnified Party to be represented by separate counsel because a conflict or potential conflict exists between the Indemnifying Party and the Indemnified Party which makes representation of both parties inappropriate under applicable standards of professional conduct or (y) the named parties to such Third Party Claim include both the Indemnifying Party and the Indemnified Party and the Indemnified Party determines in good faith, based on advice of counsel, that defenses are available to it that are unavailable to the

Indemnifying Party. Notwithstanding the foregoing, the Indemnified Party may retain or take over the control of the defense or settlement of any Third Party Claim the defense of which the Indemnifying Party has elected to control if the Indemnified Party irrevocably waives its right to indemnity under SECTION 8.1 with respect to such Third Party Claim.

(ii) If the Indemnifying Party fails to notify the Indemnified Party within the Dispute Period that the Indemnifying Party desires to defend the Third Party Claim pursuant to SECTION 8.2(A), or if the Indemnifying Party gives such notice but fails to prosecute vigorously and diligently or settle the Third Party Claim, then the Indemnified Party will have the right to defend, at the sole cost and expense of the Indemnifying Party, the Third Party Claim by all appropriate proceedings, which proceedings will be prosecuted by the Indemnified Party in good faith or will be settled at the discretion of the Indemnified Party (with the consent of the Indemnifying Party, which consent will not be unreasonably withheld). The Indemnified Party will have full control of such defense and proceedings, including (except as provided

in the immediately preceding sentence) any settlement thereof; PROVIDED, HOWEVER, that if requested by the Indemnified Party, the Indemnifying Party will, at the sole cost and expense of the Indemnifying Party, provide reasonable cooperation to the Indemnified Party and its counsel in contesting any Third Party Claim which the Indemnified Party is contesting. Notwithstanding the foregoing provisions of this clause (ii), if the Indemnifying Party has notified the Indemnified Party within the Dispute Period that the Indemnifying Party disputes its liability hereunder to the Indemnified Party with respect to such Third Party Claim and if such dispute is resolved in favor of the Indemnifying Party in the manner provided in clause (iii) below, the Indemnifying Party will not be required to bear the costs and expenses of the Indemnified Party's defense pursuant to this clause (ii) or of the Indemnifying Party's participation therein at the Indemnified Party's request, and the Indemnified Party will reimburse the Indemnifying Party in full for all reasonable costs and expenses incurred by the Indemnifying Party in connection with such litigation.

(iii) If the Indemnifying Party notifies the Indemnified Party that it does not dispute its liability to the Indemnified Party with respect to the Third Party Claim under SECTION 8.1 or fails to notify the Indemnified Party within the Dispute Period whether the Indemnifying Party disputes its liability to the Indemnified Party with respect to such Third Party Claim, the Loss arising from such Third Party Claim will be conclusively deemed a liability of the Indemnifying Party under SECTION 8.1 and the Indemnifying Party shall pay the amount of such Loss to the Indemnified Party on demand following its final determination. If the Indemnifying Party has timely disputed its liability with respect to such claim, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within the Resolution Period, such dispute shall be resolved by arbitration in accordance with SECTION 11.11.

(b) In the event any Indemnified Party should have a claim under SECTION 8.1 against any Indemnifying Party that does not involve a Third Party Claim, the Indemnified Party shall deliver an Indemnity Notice with reasonable promptness to the Indemnifying Party. The failure by any Indemnified Party to give the Indemnity Notice shall not impair such party's rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been irreparably prejudiced thereby. If the Indemnifying Party notifies the Indemnified Party that it does not dispute the claim described in such Indemnity Notice or fails to notify the Indemnified

Party within the Dispute Period whether the Indemnifying Party disputes the claim described in such Indemnity Notice, the Loss arising from the claim specified in such Indemnity Notice will be conclusively deemed a liability of the Indemnifying Party under SECTION 8.1 and the Indemnifying Party shall pay the amount of such Loss to the Indemnified Party on demand following its final determination. If the Indemnifying Party has timely disputed its liability with respect to such claim, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within the Resolution Period, such dispute shall be resolved by arbitration in accordance with SECTION 11.11.

(c) The amount which an Indemnifying Party is required to pay to, for, or on behalf of any other party pursuant to this Article VIII shall be reduced (including, without limitation, retroactively) by any insurance proceeds actually recovered (after making a good faith effort for such recovery) by or on behalf of such Indemnified Party and other amounts paid by any other person in reduction of the related indemnifiable loss (the "Indemnifiable Loss"). Amounts required to be paid, as so reduced, are hereafter sometimes called an "Indemnity Payment." If an Indemnified Party shall have received or shall have paid on its behalf an Indemnity Payment in respect of an Indemnifiable Loss and shall subsequently receive directly or indirectly insurance proceeds or other amounts in respect of such Indemnifiable Loss, then such Indemnified Party shall promptly pay to the Indemnifying Party a sum equal to the amount of such insurance proceeds or other amounts provided the same does not exceed an amount equal to the payment actually made by the Indemnifying Party.

ARTICLE IX

TERMINATION

9.1 TERMINATION. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned:

(a) at any time before the Closing, by mutual written agreement of Seller and Purchaser;

(b) at any time before the Closing, by Seller or Purchaser, in the event (i) of a material breach hereof by the non-terminating party if such non-terminating party fails to cure such breach within five (5) Business Days following notification thereof by the terminating party or (ii) upon notification of the non-terminating party by the terminating party that the satisfaction of any condition to the terminating party's obligations under this Agreement becomes impossible or impracticable with the use of commercially reasonable efforts if the failure of such condition to be satisfied is not caused by a breach hereof by the terminating party; or

(c) at any time after December 15, 1999 by Seller or Purchaser upon notification of the non-terminating party by the terminating party if the Closing shall not have occurred on or before such date and such failure to consummate is not caused by a breach of this Agreement by the terminating party.

9.2 EFFECT OF TERMINATION. If this Agreement is validly terminated pursuant to SECTION 9.1, this Agreement will forthwith become null and void, and there will be no liability or obligation on the part of Seller, the Company or Purchaser (or any of their respective officers, directors, employees, agents or other representatives or Affiliates), except as provided in the next succeeding sentence and except that the provisions with respect to expenses in SECTION 11.3 and confidentiality in SECTION 11.5 will continue to apply following any such termination. Notwithstanding any other provision in this Agreement to the contrary, upon termination of this Agreement pursuant to SECTION 9.1(B) or (C), Seller will remain liable to Purchaser for any breach of this Agreement by Seller existing at the time of such termination, and Purchaser will remain liable to Seller for any breach of this Agreement by Purchaser existing at the time of such termination, and Seller or Purchaser may seek such remedies, including damages and fees of attorneys, against the other with respect to any such breach as are provided in this Agreement or as are otherwise available at Law or in equity.

ARTICLE X

DEFINITIONS

10.1 DEFINITIONS.

(a) DEFINED TERMS. As used in this Agreement, the following defined terms have the meanings indicated below:

"ACTIONS OR PROCEEDINGS" means any action, suit, proceeding, arbitration or Governmental or Regulatory Authority investigation or audit.

"AFFILIATE" means any Person that directly, or indirectly through one of more intermediaries, controls or is controlled by or is under common control with the Person specified. For purposes of this definition, control of a Person means the power, direct or indirect, to direct or cause the direction of the management and policies of such Person whether by Contract or otherwise and, in any event and without limitation of the previous sentence, any Person owning ten percent (10%) or more of the voting securities of another Person shall be deemed to control that Person.

"AGREEMENT" means this Stock Purchase Agreement and the Exhibits, the Disclosure Schedule and the Schedules hereto and the certificates delivered in accordance with ARTICLE VI, as the same shall be amended from time to time.

"ASSETS AND PROPERTIES" of any Person means all assets and properties of every kind, nature, character and description (whether real,

personal or mixed, whether tangible or intangible, whether absolute, accrued, contingent, fixed or otherwise and wherever situated), including the goodwill related thereto, operated, owned or leased by such Person, including without limitation cash, cash equivalents, Investment Assets, accounts and notes receivable, chattel paper, documents, instruments, general intangibles, real estate, equipment, inventory, goods and Intellectual Property.

"BOOKS AND RECORDS" means all files, documents, instruments, papers, books and records relating to the Business or Condition of the Company, including without limitation

financial statements, Tax Returns and related work papers and letters from accountants, budgets, pricing guidelines, ledgers, journals, deeds, title policies, minute books, stock certificates and books, stock transfer ledgers, Contracts, Licenses, customer lists, computer files and programs, retrieval programs, operating data and plans and environmental studies and plans.

"BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the State of California are authorized or obligated to close.

"BUSINESS OR CONDITION OF THE COMPANY" means the business, condition (financial or otherwise), results of operations, Assets and Properties of the Company taken as a whole.

"CLAIM NOTICE" means written notification pursuant to SECTION 9.2(A) of a Third Party Claim as to which indemnity under SECTION 9.1 is sought by an Indemnified Party, enclosing a copy of all papers served, if any, and specifying the nature of and basis for such Third Party Claim and for the Indemnified Party's claim against the Indemnifying Party under SECTION 9.1, together with the amount or, if not then reasonably determinable, the estimated amount, determined in good faith, of the Loss arising from such Third Party Claim.

"CLOSING" means the closing of the transactions contemplated by SECTION 1.3.

"CLOSING DATE" means the earlier of (a) December 15, 1999, (b) as soon as practicable after the last of the consents, approvals, actions, filings, notices or waiting periods described in or related to the filings described in ARTICLE VI has been obtained, made or given or has expired, as applicable, or (c) such other date as Purchaser and Seller mutually agree upon in writing.

"COMMON STOCK" means the common stock, no par value per share, of the Company.

"COMPANY" has the meaning ascribed to it in the forepart of this Agreement.

"COMPANY SHARES" has the meaning ascribed to it in the forepart of this Agreement.

"CONTRACT" means any agreement, lease, license, evidence of Indebtedness, mortgage, indenture, security agreement or other contract (whether written or oral).

"DISCLOSURE SCHEDULE" means the record delivered to Purchaser by Seller herewith and dated as of the date hereof, containing all lists, descriptions, exceptions and other information and materials as are required to be included therein by Seller pursuant to this Agreement.

"DISPUTE PERIOD" means the period ending thirty (30) days (or such shorter period as required by law) following receipt by an Indemnifying Party of either a Claim Notice or an Indemnity Notice.

"ENVIRONMENTAL CLAIM" means, with respect to any Person, any written or oral notice, claim, demand or other communication (collectively, a

"CLAIM") by any other Person

alleging or asserting such Person's liability for investigatory costs, cleanup costs, Governmental or Regulatory Authority response costs, damages to natural resources or other property, personal injuries, fines or penalties arising out of, based on or resulting from (a) the presence, or Release into the environment, of any Hazardous Material at any location, whether or not owned by such Person, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law. The term "Environmental Claim" shall include, without limitation, any claim by any Governmental or Regulatory Authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law, and any claim by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence of Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment.

"ENVIRONMENTAL LAW" means any Law or Order relating to the regulation or protection of human health, safety or the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes into the environment (including, without limitation, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata), or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or industrial, toxic or hazardous substances or wastes.

"FINANCIAL STATEMENTS" means the financial statements of the Company delivered to Purchaser pursuant to SECTION 2.8.

"FINANCIAL STATEMENT DATE" means November 30, 1999.

"GAAP" means United States generally accepted accounting principles, consistently applied throughout the specified period and in the immediately prior comparable period as determined by the Purchaser's independent auditors.

"GOVERNMENTAL OR REGULATORY AUTHORITY" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States or any domestic or foreign state, county, city or other political subdivision.

"HAZARDOUS MATERIAL" means (A) any petroleum or petroleum products, flammable explosives, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls (PCBs); (B) any chemicals or other materials or substances which are now or hereafter become defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants" or words of similar import under any Environmental Law; and (C) any other chemical or other material or substance, exposure to which is now or hereafter prohibited, limited or regulated by any Governmental or Regulatory Authority under any Environmental Law.

"INDEBTEDNESS" of any Person means all obligations of such Person (i) for borrowed money, (ii) evidenced by notes, bonds, debentures or similar instruments, (iii) for the deferred purchase price of goods or services (other than trade payables or accruals incurred in the

ordinary course of business), (iv) under capital leases and (v) in the nature

of guarantees of the obligations described in clauses (i) through (iv) above of any other Person.

"INDEMNIFIED PARTY" means any Person claiming indemnification under any provision of ARTICLE IX.

"INDEMNIFYING PARTY" means any Person against whom a claim for indemnification is being asserted under any provision of ARTICLE IX.

"INDEMNITY NOTICE" means written notification pursuant to SECTION 9.2(B) of a claim for indemnity under ARTICLE IX by an Indemnified Party, specifying the nature of and basis for such claim, together with the amount or, if not then reasonably determinable, the estimated amount, determined in good faith, of the Loss arising from such claim.

"INTELLECTUAL PROPERTY" means all patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, brand names, inventions, processes, formulae, copyrights and copyright rights, trade dress, business and product names, logos, slogans, trade secrets, industrial models, processes, designs, methodologies, computer programs (including all source codes) and related documentation, technical information, manufacturing, engineering and technical drawings, know-how and all pending applications for and registrations of patents, trademarks, service marks and copyrights.

"INVESTMENT ASSETS" means all debentures, notes and other evidences of Indebtedness, stocks, securities (including rights to purchase and securities convertible into or exchangeable for other securities), interests in joint ventures and general and limited partnerships, mortgage loans and other investment or portfolio assets owned of record or beneficially by the Company and issued by any Person other than the Company (other than trade receivables generated in the ordinary course of business of the Company).

"KNOWLEDGE OF SELLER" or "KNOWN TO SELLER" means the knowledge of the Seller; PROVIDED HOWEVER, that the parties expressly agree that any intellectual property claims arising from, or related to, Adam Springer and/or Steven T. Abell shall be deemed to be within the knowledge of the Seller.

"LAWS" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States or any domestic or foreign state, county, city or other political subdivision or of any Governmental or Regulatory Authority.

"LIABILITIES" means all Indebtedness, obligations and other liabilities of a Person (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due).

"LICENSES" means all licenses, permits, certificates of authority, authorizations, approvals, registrations, franchises and similar consents granted or issued by any Governmental or Regulatory Authority.

"LIENS" means any mortgage, pledge, assessment, security interest, lease, lien, adverse claim, levy, charge or other encumbrance of any kind, or any conditional sale Contract, title retention Contract or other Contract to give any of the foregoing.

"LOSS" means any and all damages, fines, fees, penalties, deficiencies, losses and expenses (including without limitation interest, court costs, fees of attorneys, accountants and other experts or other expenses of litigation or other proceedings or of any claim, default or assessment).

"OPTION" with respect to any Person means any security, right, subscription, warrant, option, "phantom" stock right or other Contract that gives the right to (i) purchase or otherwise receive or be issued any shares of capital stock of such Person or any security of any kind convertible into or exchangeable or exercisable for any shares of capital stock of such Person or (ii) receive or exercise any benefits or rights similar to any rights enjoyed by or accruing to the holder of shares of capital stock of such Person, including

any rights to participate in the equity or income of such Person or to participate in or direct the election of any directors or officers of such Person or the manner in which any shares of capital stock of such Person are voted.

"ORDER" means any writ, judgment, decree, injunction or similar order of any Governmental or Regulatory Authority (in each such case whether preliminary or final).

"PERMITTED LIEN" means (i) any Lien for Taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, (ii) any statutory Lien arising in the ordinary course of business by operation of Law with respect to a Liability that is not yet due or delinquent and (iii) any minor imperfection of title or similar Lien which individually or in the aggregate with other such Liens does not materially impair the value of the property subject to such Lien or the use of such property in the conduct of the business of the Company.

"PERSON" means any natural person, corporation, general partnership, limited partnership, proprietorship, other business organization, trust, union, association or Governmental or Regulatory Authority.

"PLAN" means any bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, accident, disability, workmen's compensation or other insurance, severance, separation or other employee benefit plan, practice, policy or arrangement of any kind, whether written or oral.

"PROPRIETARY ASSETS" means any Assets and Properties of the Company of a proprietary nature, including, without limitation, know-how, formulas, processes, ideas, inventions (whether or not patentable), schematics and other technical, business, financial, customer and product development plans related to the Company's products or services.

"PURCHASE PRICE" has the meaning ascribed to it in SECTION 1.2.

"PURCHASER" has the meaning ascribed to it in the forepart of this Agreement.

"PURCHASER INDEMNIFIED PARTIES" means Purchaser and its officers, directors, employees, agents and Affiliates.

"RELEASE" means any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migration into the indoor or outdoor environment, including, without limitation, the movement of Hazardous Materials through ambient air, soil, surface water, ground water, wetlands, land or subsurface strata.

"RESOLUTION PERIOD" means the period ending thirty (30) days following receipt by an Indemnified Party of a written notice from an Indemnifying Party stating that it disputes all or any portion of a claim set forth in a Claim Notice or an Indemnity Notice.

"SELLER" has the meaning ascribed to it in the forepart of this Agreement.

"SELLER INDEMNIFIED PARTIES" means the Seller.

"SHARES" has the meaning ascribed to it in the forepart of this Agreement.

"TAX OR TAXES" shall mean any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, environmental, customs duties, capital stock,

franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"TAX RETURN" means any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information filed with or submitted to, or required to be filed with or submitted to, any Governmental or Regulatory Authority in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Laws relating to any Tax.

"THIRD PARTY CLAIM" has the meaning ascribed to it in SECTION 9.2(A).

"YEAR 2000 COMPLIANT" has the meaning ascribed to it in SECTION 2.33.

(b) CONSTRUCTION OF CERTAIN TERMS AND PHRASES. Unless the context of this Agreement otherwise requires, (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the terms "Article" or "Section" refer to the specified Article or Section of this Agreement; and (v) the phrases "ordinary course of business" and "ordinary course of business consistent with past practice" refer to the business and practice of the Company. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified. All accounting terms used herein and not expressly defined herein shall have the meanings given to them under GAAP as interpreted by the Purchaser's independent auditors.

ARTICLE XI

MISCELLANEOUS

11.1 NOTICES. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

IF TO PURCHASER, TO:

QAD Inc.
6450 Via Real
Carpinteria, California USA 93103
Facsimile No.: (805) 684-1890
Attn.: General Counsel

WITH A COPY TO:

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

IF TO SELLER, TO:

David A. Taylor
4008 Bayview Avenue
San Mateo, California 94403
Facsimile No.: none

WITH A COPY TO:

Heller Ehrman White & McAuliffe
525 University Avenue
Palo Alto, CA 94301
Attn: Sarah A. O'Dowd
Facsimile No.: (650) 324-0638

IF TO THE COMPANY, TO:

Enterprise Engines, Inc.
990 Baker Way
San Mateo, California 94404
Attn: President
Facsimile No.: (650) 525-2828

WITH A COPY TO:

Heller, Ehrman, White & McAuliffe
525 University Avenue
Palo Alto, CA 94301
Attn: Sarah A. O'Dowd
Facsimile No.: (650) 324-0638

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other Person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other party hereto.

11.2 ENTIRE AGREEMENT. This Agreement supersedes all prior discussions and agreements between the parties with respect to the subject matter hereof and thereof, including without limitation that certain letter of intent; between the parties dated November 24, 1999, and contains the sole and entire agreement among the parties hereto with respect to the subject matter hereof and thereof.

11.3 EXPENSES. Except as otherwise expressly provided in this Agreement (including without limitation as provided in SECTION 10.2), whether or not the transactions contemplated hereby are consummated, the Purchaser will pay its own costs and expenses, and the Company shall pay the actual documented costs and expenses, including any broker's, finder's or investment banking fees and counsel fees not to exceed $100,000, incurred in connection with the negotiation and closing of this Agreement and the transactions contemplated hereby and thereby.

11.4 PUBLIC ANNOUNCEMENTS. At all times at or before the Closing, Seller and Purchaser will not issue or make any reports, statements or releases to the public or generally to the customers, suppliers or other Persons to whom the Company sells goods or provides services or with whom the Company otherwise has significant business relationships with respect to this Agreement or the transactions contemplated hereby without the consent of the other, which consent shall not be unreasonably withheld. If either party is unable to obtain the approval of its public report, statement or release from the other party and such report, statement or release is, in

the opinion of legal counsel to such party, required by Law in order to discharge such party's disclosure obligations, then such party may make or issue the legally required report, statement or release and promptly furnish the other party with a copy thereof. Seller and the Purchaser will also obtain the other parties prior approval of any press release to be issued immediately following the Closing announcing the consummation of the transactions contemplated by this Agreement.

11.5 CONFIDENTIALITY. Each party hereto will hold, and will use its best efforts to cause its Affiliates, and their respective Representatives to hold, in strict confidence from any Person (other than any such Affiliate or Representative), unless (i) compelled to disclose by judicial or administrative process (including without limitation in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby of Governmental or Regulatory Authorities) or by other requirements of Law or (ii) disclosed in an Action or Proceeding brought by a party hereto in pursuit of its rights or in the exercise of its remedies hereunder, all documents and information concerning the other party or any of its Affiliates furnished to it by the other party or such other party's Representatives in connection with this Agreement or the transactions contemplated hereby, except to the extent that such documents or information can be shown to have been (a) previously known by the party receiving such documents or information, (b) in the public domain (either prior to or after the furnishing of such documents or information hereunder) through no fault of such receiving party or (c) later acquired by the receiving party from another source if the receiving party is not aware that such source is under an obligation to another party hereto to keep such documents and information confidential; PROVIDED that following the Closing the foregoing restrictions will not apply to Purchaser's use of documents and information concerning the Company furnished by Seller hereunder. In the event the transactions contemplated hereby are not consummated, upon the request of the other party, each party hereto will, and will cause its Affiliates and their respective Representatives to, promptly redeliver or cause to be redelivered all copies of documents and information furnished by the other party in connection with this Agreement or the transactions contemplated hereby and destroy or cause to be destroyed all notes, memoranda, summaries, analyses, compilations and other writings related thereto or based thereon prepared by the party furnished such documents and information or its Representatives.

11.6 WAIVER. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, will be cumulative and not alternative.

11.7 AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

11.8 NO THIRD PARTY BENEFICIARY. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and it is not the intention of the parties to confer third-party beneficiary rights upon any other Person other than any Person entitled to indemnity under ARTICLE IX.

11.9 NO ASSIGNMENT; BINDING EFFECT. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other party hereto and any attempt to do so will be void, except (a) for assignments and transfers by operation of Law and (b) that Purchaser may assign any or all of its rights, interests and obligations hereunder (including without limitation its rights under ARTICLE IX) to (i) a wholly-owned subsidiary, provided that any such subsidiary agrees in

writing to be bound by all of the terms, conditions and provisions contained herein, (ii) any post-Closing purchaser of all of the issued and outstanding stock of the Company or a substantial part of its assets or (iii) any financial institution providing purchase money or other financing to Purchaser or the Company from time to time as collateral security for such financing, but no such assignment referred to in clause (i) shall relieve Purchaser of its obligations hereunder. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

11.10 HEADINGS. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

11.11 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 San Francisco, California, administered by the American Arbitration Association under its Commercial Arbitration Rules and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

11.12 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. Seller agrees to appoint, within ten (10) days of any written request by Purchaser, its lawful agent and attorney in the State of California to accept and acknowledge service of any and all process against it in any action, suit or proceeding arising out of or relating to this Agreement or any of the transactions contemplated hereby and upon whom such process may be served, with the same effect as if such party were a resident of the State of California and had been lawfully served with such process in such jurisdiction, and waives all claims of error by reason of such service, PROVIDED that in the case of any service upon such agent and attorney, the party effecting such service shall also deliver a copy thereof to the other party at the address and in the manner specified in SECTION 11.1. Seller will enter into such agreements with such agents as may be necessary to constitute and continue the appointment of such agents hereunder. In the event that any such agent and attorney resigns or otherwise becomes incapable of acting as such, such party will appoint a successor agent and attorney in the State of California, reasonably satisfactory to the other party, with like powers. Subject to the arbitration provisions set forth in Section 11.11, each party hereby irrevocably submits to the exclusive jurisdiction of the United States District Court for the Northern District of California or any court of the State of California located in the City of San Francisco, California, in any action, suit or proceeding arising out of or relating to this Agreement or any of the transactions contemplated hereby, and agrees that any such action, suit or proceeding shall be brought only in such court, PROVIDED, HOWEVER, that such consent to jurisdiction is solely for the purpose referred to in this SECTION 11.12 and shall not be deemed to be a general submission to the jurisdiction of said courts or in the State of California other than for such purpose. Each party hereby irrevocably waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the laying of the venue of any such action, suit or proceeding brought in

such a court and any claim that any such action, suit or proceeding brought in such a court has been brought in an inconvenient forum.

11.13 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, and (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.

11.14 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the Laws of the State of California applicable to a Contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

11.15 POST-CLOSING OPERATION OF BUSINESS. The parties acknowledge that following the Closing, the Purchaser, as the sole shareholder, shall be entitled to operate the Company in the manner it determines.

11.16 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. Signatures may be exchanged by telecopy, with original signatures to follow. Each of the parties hereto agrees that it will be bound by its own telecopied signature and that it accepts the telecopied signatures of the other parties to this Agreement. The original signature pages shall be forwarded to Purchaser or its counsel and Purchaser or its counsel will provide all of the parties hereto with a copy of the entire Agreement.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party hereto as of the date first above written.

PURCHASER:

QAD Inc., a Delaware corporation

By:_____
Albert J. Moyer,
Chief Financial Officer

SELLER:

_____
David A. Taylor

COMPANY:

ENTERPRISE ENGINES, INC.

By:_____
David A. Taylor,
President

CONSENT OF SPOUSE

I consent to and join in the foregoing.

Date: December 15, 1999

_____
MRS. NINA J. HAMBERG

EXHIBIT A TO STOCK PURCHASE AGREEMENT

PROMISSORY NOTE

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EXHIBIT B TO STOCK PURCHASE AGREEMENT

ESCROW AGREEMENT

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EXHIBIT C TO STOCK PURCHASE AGREEMENT

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EXHIBIT D TO STOCK PURCHASE AGREEMENT

SELLER'S CERTIFICATE

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EXHIBIT E TO STOCK PURCHASE AGREEMENT

CONSULTING AGREEMENT

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EXHIBIT F TO STOCK PURCHASE AGREEMENT

RELEASE

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EXHIBIT G TO STOCK PURCHASE AGREEMENT

NONCOMPETITION AGREEMENT

EXHIBIT H TO STOCK PURCHASE AGREEMENT

PURCHASER'S CERTIFICATE

EXHIBIT 10.49

NON-COMPETITION AGREEMENT

THIS NON-COMPETITION AGREEMENT (the "AGREEMENT") is made and entered into as of this 15th day of December, 1999, by and among DAVID A. TAYLOR (the "SELLER"), QAD INC., a Delaware corporation (the "PURCHASER") and ENTERPRISE ENGINES, INC. (the "COMPANY").

RECITALS

A. The Seller is the legal and beneficial owner of Two Million One Hundred Thousand (2,000,100) shares of common stock, without par value, of the Company, constituting One Hundred Percent (100%) of the issued and outstanding shares of common stock of the Company (the "SHARES");

B. The Purchaser has agreed to purchase the Shares pursuant to the terms of the Stock Purchase Agreement dated December 15, 1999 (the "PURCHASE AGREEMENT") by and between the Seller, the Purchaser and the Company;

C. The Company has, is and plans to continue carrying on in the business of the Company. The Company and its business, trademarks and trade names have established a favorable reputation and/or recognition throughout the world; and

D. In order to protect the name, goodwill and business of the Company and as a condition to and in consideration of the execution, delivery and performance of the Purchase Agreement by the Purchaser, the Seller has agreed to (i) refrain from competing with the Company or the Purchaser, as set forth in this Agreement and (ii) refrain from making disparaging comments about the Purchaser or the Company.

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

1. COMPETITION

1.1 AGREEMENT NOT TO COMPETE.

(a) The Seller will refrain, for a period of two (2) years from the date hereof, either alone or in conjunction with any other Person, or directly or indirectly through his present or future Affiliates, from:

(i) employing, engaging or seeking to employ or engage any Person who within the prior twelve (12) months had been an officer or employee of the Company or the Purchaser;

(ii) causing or attempting to cause (A) any client, customer or supplier of the Company or the Purchaser to terminate or materially reduce its business with the Company or the Purchaser, or (B) any officer, employee or consultant of the Company or the Purchaser to resign or sever a relationship with the Company or the Purchaser;

(iii) disclosing (unless compelled by judicial or administrative process) or using any confidential or secret information relating to the Company or the Purchaser, or any of their respective clients, customers or suppliers; or

(iv) competing with, participating or engaging in, or otherwise lending assistance (financial or otherwise) to any Person participating or engaged in selling, creating or developing Enterprise Applications Software for businesses engaged in manufacturing, distribution or supply chain management functions which involves any of the functionality of the E-Ware System as further described below.

EEI has designed and is currently building a set of technologies for integrating and executing business models known as the E-Ware System. These technologies include the following:

APPLICATION INTERFACE: This interface surrounds all the other functionality listed below. It is the interface to which all applications are written and hides the details of transactions, collections, naming, events, etc. from the application programmer.

TRANSACTIONS: These are all the transactional semantics and mechanics that control the concurrency and integrity of every unit of work in a running application. This advanced transaction model will allow multiple transactional views to be open for each client, allowing end users to manage multiple work orders concurrently.

DYNAMIC UI: This is the infrastructure to support dynamic Java user interfaces. The UI, which can be either a Java applet or a Java application, can respond dynamically to changes in the model. This infrastructure also provides all the smart caching necessary to make these UIs perform in mission critical applications that require fast response times.

QUERY AND INDEXING: This is the subsystem necessary for the application to do the searching and reporting on all of the data within the application.

EVENT NOTIFICATION: this functionality allows the application programmer to send events at a predetermined time and rate to any other object(s) within the system

SYSTEMS INTERFACE: This is the infrastructure to support the interfaces that will be used to communicate with external entities like other ERP or

OBJECT IMPORT/EXPORT: This subsystem allows us to migrate object data from one version of an application to another.

BUSINESS BACKPLANE: A new architecture for business components to be developed by EEI and integrated into the Engine. It includes components interface definitions and supports independent component upgrades.

ELECTRONIC EXCHANGE: A market-based message broker for identifying and selecting among candidate providers for business requests. Exchanges may be used at levels ranging from low-level data requests to Internet-based buying and selling.

(b) The parties hereto recognize that the Laws and public policies of various jurisdictions may differ as to the validity and enforceability of covenants similar to those set forth in this Section. It is the intention of the parties that the provisions of this Section be enforced to the fullest extent permissible under the Laws and policies of each jurisdiction in which enforcement may be sought, and that the unenforceability (or the modification to conform to such Laws or policies) of any provisions of this Section shall not render unenforceable, or impair, the remainder of the provisions of this Section. Accordingly, if any provision of this Section shall be determined to be invalid or unenforceable, such invalidity or unenforceability shall be deemed to apply only with respect to the operation of such provision in the particular jurisdiction in which such determination is made and not with respect to any other provision or jurisdiction.

(c) The parties hereto acknowledge and agree that any remedy at Law for any breach of the provisions of this Section would be inadequate, and Seller hereby consents to the granting by any court of an injunction or other equitable relief, without the necessity of actual monetary loss being proved, in order that the breach or threatened breach of such provisions may be effectively restrained.

1.2 CONSIDERATION FOR NONCOMPETITION AGREEMENT. The Purchaser will pay to the Seller ONE HUNDRED THOUSAND DOLLARS ($100,000) for this covenant payable in twelve (12) equal monthly installments commencing on December 16, 1999.

2. REMEDIES.

2.1 INJUNCTIVE RELIEF. The Seller acknowledges and agrees that the covenants and obligations contained in this Agreement relate to special, unique and extraordinary matters, that the skills, talents, experience and knowledge of the Seller are very valuable and, if used to compete with the Company or the Purchaser, or if the Seller is permitted to disclose confidential information or permitted to make negative or disparaging comments about the Company, such competition, disclosure and/or comments will greatly decrease the value of the business transferred to the Purchaser pursuant to the Purchase Agreement, and that a violation of any of the terms of this Agreement will cause the Purchaser and the Company irreparable injury for which adequate remedy at law is not available. Therefore, in addition to other remedies that the Purchaser or the Company may have, the Seller agrees that the Purchaser shall be entitled to an injunction, restraining order or other equitable relief from any court of competent jurisdiction, restraining the Seller from committing any violation of the covenants and obligations set forth in this Agreement, together with an award of attorneys' fees to be set by the Court.

2.2 REMEDIES CUMULATIVE. The Purchaser's rights and remedies under SECTION 2.1 above are cumulative and are in addition to, and not in lieu of, any other rights and remedies the Purchaser may have at law or in equity.

3. MISCELLANEOUS.

3.1 NOTICE. All notices, demands and requests required by this Agreement shall be in writing and shall be deemed to have been given or made for all purposes (i) upon personal delivery, (ii) one (1) day after being sent, when sent by professional overnight courier service, (iii) five (5) days after posting when sent by registered or certified mail, or (iv) on the date of transmission when sent by telegraph, telegram, telex or other form of "hard copy" transmission, to either party hereto at the address set forth below or at such other address as either party may designate by notice pursuant to this SECTION 3.1.

If to Purchaser:	QAD Inc. 6450 Via Real Carpinteria, CA 93013 Attn: General Counsel Facsimile: 805-566-6080
With copy to:	Joseph E. Nida, Esq. Nida & Maloney, LLP 800 Anacapa Street Santa Barbara, CA 93101 Facsimile No.: 805-568-1955
If to Seller:	David A. Taylor 4008 Bayview Avenue San Mateo, california 94403 Facsimile: none
With copy to:	Heller, Ehrman, White & McCauliffe 525 University Avenue Palo Alto, CA 94301 Attn: Sarah A. O'Dowd Facsimile No.: 650-324-0638
If to Company:	Enterprise Engines, Inc. c/o QAD Inc. 10,000 Midlantic, #200 East Mt. Laurel, NJ 08054

Attn: Roland B. Desilets
Facsimile No.: 856-850-2698

With copy to: Joseph E. Nida, Esq.
Nida & Maloney, LLP
800 Anacapa Street
Santa Barbara, CA 93101
Facsimile No.: 805-568-1955

This Agreement shall be binding on, and shall inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors, and assigns; PROVIDED, HOWEVER, that the Seller may not assign, transfer or delegate his rights or obligations hereunder and any attempt to do so shall be void.

3.3 ENTIRE AGREEMENT. This Agreement and the Purchase Agreement contain the entire agreement of the parties with respect to the subject matter hereof, and all other agreements, written or verbal, are of no further force or effect.

3.4 AMENDMENT. This Agreement may be modified or amended only by a written agreement signed by the Purchaser and the Seller.

3.5 WAIVERS. No waiver of any term or provision of this Agreement will be valid unless such waiver is in writing and signed by the party against whom enforcement of the waiver is sought. The waiver of any term or provision of this Agreement shall not apply to any subsequent breach of this Agreement.

3.6 CAPTIONS AND CROSS-REFERENCES. Captions to the various sections in this Agreement are for the convenience of the parties only and shall not affect the meaning or interpretation of this Agreement. All cross-references in this Agreement, unless specifically directed to another agreement or document, refer to provisions within this Agreement.

3.7 COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed an original, but together they shall constitute one and the same instrument.

3.8 SEVERABILITY. The terms and provisions of this Agreement shall be deemed severable, and if any term, provision or part of any provision is held illegal, void or invalid under applicable law, the same shall be deleted or changed to the minimum extent necessary to make it, as so changed, or the remainder of the provision in the case of a deletion of any part of a provision, legal, valid and binding. If any term or provision of this Agreement is held illegal, void or invalid in its entirety, the remaining terms and provisions of this Agreement shall not in any way be affected or impaired but shall remain binding in accordance with their terms.

3.9 ARBITRATION. Any dispute relating to this Agreement shall be resolved in accordance with the arbitration provisions set forth in the Purchase Agreement.

3.10 ATTORNEYS' FEES AND COSTS. In the event of any action at law or in equity between the parties hereto to enforce any of the provisions hereof, the unsuccessful party or parties to such litigation shall pay to the successful party or parties all costs and expenses including reasonable attorneys' fees, incurred therein by such successful party or parties, and if such successful party or parties shall recover judgment in any such action or proceeding, such costs, expenses, and attorneys fees may be

included in and as part of such judgment. The successful party shall be the party who is entitled to recover his costs of suit, whether or not the suit proceeds to final judgment. If no costs are awarded, the successful party shall be determined by the court.

3.11 GOVERNING LAW AND FORUM. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PURCHASER, THE COMPANY AND THE SELLER HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS, AND NOT THE LAW OF CONFLICTS, OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE. EXCEPT AS SET FORTH IN SECTION 3.9 ABOVE, ANY AND ALL ACTIONS AND PROCEEDINGS ARISING OUT OF OR RELATED DIRECTLY OR INDIRECTLY TO THIS AGREEMENT SHALL BE LITIGATED IN ANY STATE COURT OR FEDERAL COURT SITTING IN SAN FRANCISCO, STATE OF CALIFORNIA, AND EACH PARTY HERETO HEREBY EXPRESSLY CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY SUCH COURT AND TO VENUE THEREIN AND CONSENTS TO THE SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING BY CERTIFIED OR REGISTERED MAILING OF THE SUMMONS AND COMPLAINT THEREIN DIRECTED TO THE PARTIES IN THEIR RESPECTIVE ADDRESSES SET FORTH IN SECTION 3.1 HEREOF.

3.12 COVENANT TO PERFORM NECESSARY ACTS. Each party hereto agrees to perform any further acts and execute and deliver any further documents which may be reasonably necessary or otherwise reasonably required to carry out the provisions of this Agreement.

3.13 NUMBER AND GENDER. Words in the singular shall include the plural, and words in a particular gender shall include either or both genders when the context in which such words are used indicate that such is the intent.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

PURCHASER:

QAD Inc.

By:_____
Name: Albert J. Moyer
Title: Chief Financial Officer

SELLER:

David A. Taylor

COMPANY:

ENTERPRISE ENGINES, INC.

By:_____
Name: David A. Taylor
Title: President and Chief Executive Officer

[LOGO]

EXHIBIT 10.50

PROMISSORY NOTE

PRINCIPAL	LOAN DATE	MATURITY	LOAN NO	CALL	COLLATERAL	ACCOUNT	OFFICER	INITIALS
$5,000,000.00	11-08-1999	11-08-2004			7400		NC	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

BORROWER: QAD ORTEGA HILL, LLC, a Delaware Limited Liability Company, d/b/a/ QAD OH, LLC in California 6450 Via Real Carpinteria, CA 93013	LENDER: FIRST CREDIT BANK, A California Banking Corporation SUNSET-DOHENY BRANCH 9255 SUNSET BOULEVARD WEST HOLLYWOOD, CA 90069

Principal Amount: $5,000,000.00 Initial Rate: 10.750% Date of Note: November 8, 1999

PROMISE TO PAY. QAD ORTEGA HILL, LLC, a Delaware Limited Liability Company, d/b/a QAD OH, LLC in California ("Borrower") promises to pay to FIRST CREDIT BANK, A California Banking Corporation ("Lender"), or order, in lawful money of the United States of America, the principal amount of Five Million & 00/100 Dollars ($5,000,000.00), together with interest on the unpaid principal balance from November 8, 1999, until paid in full.

PAYMENT. Subject to any payment changes resulting from changes in the Index, Borrower will pay this loan in 59 principal payments of $20,000.00 each and one final principal and interest payment of $3,854,877.12. Borrower's first principal payment is due December 8, 1999, and all subsequent principal payments are due on the same day of each month after that. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date. Borrower's first interest payment is due December 8, 1999, and all subsequent interest payments are due on the same day of each month after that. Borrower's final payment due November 8, 2004, will be for all principal and accrued interest not yet paid. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to any unpaid collection costs and any late charges, then to any unpaid interest, and any remaining amount to principal.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current Index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each day. The Index currently is 8.250% per annum. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 2.500 percentage points over the Index, resulting in an initial rate of 10.750% per annum. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. Except for the foregoing, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, they will reduce the principal balance due and may result in Borrower making fewer payments.

LATE CHARGE. If a payment is 10 DAYS OR MORE LATE, Borrower will be charged 5.000% OF THE REGULARLY SCHEDULED PAYMENT OR $50.00, WHICHEVER IS GREATER.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this

Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (d) Borrower dissolves (regardless of whether election to continue is made), any member withdraws from Borrower, any member dies, or any of the members or Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (e) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (f) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (g) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired. (h) Failure to meet the deadlines required in the Year 2000 Compliance Agreement to be Year 2000 Compliant or a reasonable likelihood that Borrower cannot be Year 2000 Compliant on or before December 31, 1999.

If any default, other than a default in payment, is curable and if Borrower has not been given a notice of breach of the same provision of this Note within the preceding twelve (12) months, it may be cured (and no event of default will have occurred) if Borrower, after receiving written notice from Lender demanding cure of such default: (a) cures the default within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, without notice, and then Borrower will pay that amount. Upon Borrower's failure to pay all amounts declared due pursuant to this section, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, do one or both of the following: (a) increase the variable interest rate on this Note to 7.500 percentage points over the Index, and (b) add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law. This note has been delivered to Lender and accepted by Lender in the State of California. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of LOS ANGELES County, the State of California. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other. Subject to the provisions on arbitration, this Note shall be governed by and construed in accordance with the laws of the State of California.

COLLATERAL. Borrower acknowledges this Note is secured by, in addition to any other collateral, a Deed of Trust dated November 8, 1999, to a trustee in favor of Lender on real property located in Santa Barbara County, State of California. That agreement contains the following due on sale provision: Lender may, at its option, declare immediately due and payable all sums secured by this Note upon the sale or transfer, without the Lender's

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prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by

outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease-option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

ARBITRATION. Lender and Borrower agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Note or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any collateral securing this Note shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any collateral securing this Note, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral securing this Note, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Lender and Borrower agree that in the event of an action for judicial foreclosure pursuant to California Code of Civil Procedure Section 726, or any similar provision in any other state, the commencement of such an action will not constitute a waiver of the right to arbitrate and the court shall refer to arbitration as much of such action, including counterclaims, as lawfully may be referred to arbitration. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Note shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

GENERAL PROVISIONS. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive any applicable statute of limitations, presentment, demand for payment, protest and notice of dishonor. Upon any change in terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made.

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF COMPLETED COPY OF THE NOTE.

BORROWER:

QAD ORTEGA HILL, LLC, A Delaware Limited Liability Company, d/b/a QAD OH, LLC in California

By: /s/ Barry Anderson

Barry R. Anderson, Manager

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EXHIBIT 10.51

RECORDATION REQUESTED BY:

WHEN RECORDED MAIL TO:

FIRST CREDIT BANK, A California Banking
Corporation
9255 SUNSET BOULEVARD
WEST HOLLYWOOD, CA 90069

SEND TAX NOTICES TO:
QAD ORTEGA HILL, LLC, a Delaware Limited
Liability Company, d/b/a QAD OH, LLC in
California
6450 Via Real
Carpinteria, CA 93013

SPACE ABOVE THIS LINE IS FOR RECORDER'S USE ONLY

[LOGO]

DEED OF TRUST

THIS DEED OF TRUST IS DATED NOVEMBER 8, 1999, AMONG QAD ORTEGA HILL, LLC, a Delaware Limited Liability Company, d/b/a QAD OH, LLC in California, whose address is 6450 Via Real, Carpinteria, CA 93013 (referred to below as "Trustor"); FIRST CREDIT BANK, A California Banking Corporation, whose address is 9255 SUNSET BOULEVARD, WEST HOLLYWOOD, CA 90069 (referred to below sometimes as "Lender" and sometimes as "Beneficiary"); and FIRST CREDIT BANK, A California Banking Corporation, whose address is 9255 Sunset Boulevard, West Hollywood, CA 90069 (referred to below as "Trustee").

CONVEYANCE AND GRANT. For valuable consideration, Trustor irrevocably grants, transfers and assigns to Trustee in trust, with power of sale, for the benefit of Lender as Beneficiary, all of Trustor's right, title, and interest in and to the following described real property, together with all existing or subsequently erected or affixed buildings, improvements and fixtures; all easements, rights of way, and appurtenances; all water, water rights and ditch rights (including stock in utilities with ditch or irrigation rights); and all other rights, royalties, and profits relating to the real property, including without limitation all minerals, oil, gas, geothermal and similar matters, LOCATED IN SANTA BARBARA COUNTY, STATE OF CALIFORNIA (THE "REAL PROPERTY"):

SEE EXHIBIT "A" ATTACHED HERETO AND INCORPORATED HEREIN BY THIS REFERENCE.

Trustor presently assigns to Lender (also known as Beneficiary in this Deed of Trust) all of Trustor's right, title, and interest in and to all present and future leases of the Property and all Rents from the Property. This is an absolute assignment of Rents made in connection with an obligation secured by real property pursuant to California Civil Code Section 2938. In addition, Trustor grants Lender a Uniform Commercial Code security interest in the Rents and the Personal Property defined below.

DEFINITIONS. The following words shall have the following meanings when used in this Deed of Trust. Terms not otherwise defined in this Deed of Trust shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

BENEFICIARY. The word "Beneficiary" means FIRST CREDIT BANK, A California Banking Corporation, its successors and assigns. FIRST CREDIT BANK, A California Banking Corporation also is referred to as "Lender" in this Deed of Trust.

DEED OF TRUST. The words "Deed of Trust" mean this Deed of Trust among Trustor, Lender, and Trustee, and includes without limitation all assignment and security interest provisions relating to the Personal Property and Rents.

GUARANTOR. The word "Guarantor" means and includes without

limitation any and all guarantors, sureties, and accommodation parties in connection with the indebtedness.

IMPROVEMENTS. The word "Improvements" means and includes without limitation all existing and future improvements, buildings, structures, mobile homes affixed on the Real Property, facilities, additions, replacements and other construction on the Real Property.

INDEBTEDNESS. The word "Indebtedness" means all principal and interest payable under the Note and any amounts expended or advanced by Lender to discharge obligations of Trustor or expenses incurred by Trustee or Lender to enforce obligations of Trustor under this Deed of Trust, together with interest on such amounts as provided in this Deed of Trust.

LENDER. The word "Lender" means FIRST CREDIT BANK, A California Banking Corporation, its successors and assigns.

NOTE. The word "Note" means the Note dated November 8, 1999, IN THE PRINCIPAL AMOUNT OF $5,000,000.00 from Trustor to Lender, together with all renewals, extensions, modifications, refinancings, and substitutions for the Note. NOTICE TO TRUSTOR: THE NOTE CONTAINS A VARIABLE INTEREST RATE.

PERSONAL PROPERTY. The words "Personal Property" mean all equipment, fixtures, and other articles of personal property now or hereafter owned by Trustor, and now or hereafter attached or affixed to the Real Property; together with all accessions, parts, and additions to, all

replacements of, and all substitutions for, any such property; and together with all proceeds (including without limitation all insurance proceeds and refunds of premiums) from any sale or other disposition of the Property.

PROPERTY. The word "Property" means collectively the Real Property and the Personal Property.

REAL PROPERTY. The words "Real Property" mean the property, interests and rights described above in the "Conveyance and Grant" section.

RELATED DOCUMENTS. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RENTS. The word "Rents" means all present and future leases, rents, revenues, income, issues, royalties, profits, and other benefits derived from the Property together with the cash proceeds of the Rents.

TRUSTEE. The word "Trustee" means FIRST CREDIT BANK, A California Banking Corporation and any substitute or successor trustees.

TRUSTOR. The word "Trustor" means any and all persons and entities executing this Deed of Trust, including without limitation all Trustors named above.

THIS DEED OF TRUST, INCLUDING THE ASSIGNMENT OF RENTS AND THE SECURITY INTEREST IN THE RENTS AND PERSONAL PROPERTY, IS GIVEN TO SECURE (1) PAYMENT OF THE INDEBTEDNESS AND (2) PERFORMANCE OF ANY AND ALL OBLIGATIONS OF TRUSTOR UNDER THE NOTE, THE RELATED DOCUMENTS, AND THIS DEED OF TRUST. THIS DEED OF TRUST IS GIVEN AND ACCEPTED ON THE FOLLOWING TERMS:

PAYMENT AND PERFORMANCE. Except as otherwise provided in this Deed of Trust, Trustor shall pay to Lender all amounts secured by this Deed of Trust as they

become due, and shall strictly and in a timely manner perform all of Trustor's obligations under the Note, this Deed of Trust, and the Related Documents.

POSSESSION AND MAINTENANCE OF THE PROPERTY. Trustor agrees that Trustor's possession and use of the Property shall be governed by the following provisions:

POSSESSION AND USE. Until the occurrence of an Event of Default, Trustor may (a) remain in possession and control of the Property, (b) use, operate or manage the Property, and (c) collect any Rents from the Property.

DUTY TO MAINTAIN. Trustor shall maintain the Property in tenantable condition and promptly perform all repairs, replacements, and maintenance necessary to preserve its value.

HAZARDOUS SUBSTANCES. The terms "hazardous waste," "hazardous substance," "disposal," "release," and "threatened release," as used in this Deed of Trust, shall have the same meanings as set forth in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. Trustor represents and warrants to Lender that: (a) During the period of Trustor's ownership of the Property, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any hazardous waste or substance by any person on, under, about or from the Property; (b) Trustor has no knowledge of, or reason to believe that there has been, except as previously disclosed to and acknowledged by Lender in writing, (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any hazardous waste or substance on, under, about or from the Property by any prior owners or occupants of the Property or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters; and (c) Except as previously disclosed to and acknowledged by Lender in writing, (i) neither Trustor nor any tenant, contractor, agent or other authorized user of the Property shall use, generate, manufacture, store, treat, dispose of, or release any hazardous waste or substance on, under, about or from the Property and (ii) any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations and ordinances, including without limitation those laws, regulations, and ordinances described above. Trustor authorizes Lender and its agents to enter upon the Property to make such inspections and tests, at Trustor's expense, as Lender may deem appropriate to determine compliance of the Property with this section of the Deed of Trust. Any inspections or tests made by Lender shall be for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Trustor or to any other person. The representations and warranties contained herein are based on Trustor's due diligence in investigating the Property for hazardous waste and hazardous substances. Trustor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Trustor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Deed of Trust or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the properties. The provisions of this section of the Deed of Trust, including the obligation to indemnify, shall survive the payment of the indebtedness and the satisfaction and reconveyance of the lien of this Deed of Trust and shall not be affected by Lender's acquisition

of any interest in the Property, whether by foreclosure or otherwise.

NUISANCE, WASTE. Trustor shall not cause, conduct or permit any nuisance nor commit, permit, or suffer any stripping of or waste on or to the Property or any portion of the Property. Without limiting the generality of the foregoing, Trustor will not remove, or grant to any other party the right to remove, any timber, minerals (including oil and gas), soil, gravel or rock products without the prior written consent of Lender.

REMOVAL OF IMPROVEMENTS. Trustor shall not demolish or remove any improvements from the Real Property without the prior written consent of Lender. As a condition to the removal of any improvements, Lender may require Trustor to make arrangements satisfactory to Lender to replace such improvements with improvements of at least equal value.

LENDER'S RIGHT TO ENTER. Lender and its agents and representatives may enter upon the Real Property at all reasonable times to attend to Lender's interest and to inspect the Property for purposes of Trustor's compliance with the terms and conditions of this Deed of Trust.

COMPLIANCE WITH GOVERNMENTAL REQUIREMENTS. Trustor shall promptly comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the use or occupancy of the Property, including without limitation, the Americans With Disabilities Act. Trustor may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Trustor has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interest's in the Property are not jeopardized. Lender may require Trustor to post adequate security or a surety bond, reasonably

satisfactory to Lender, to protect Lender's interest.

DUTY TO PROTECT. Trustor agrees neither to abandon nor leave unattended the Property. Trustor shall do all other acts, in addition to those acts set forth above in this section, which from the character and use of the Property are reasonably necessary to protect and preserve the Property.

DUE ON SALE - CONSENT BY LENDER. Lender may, at its option, declare immediately due and payable all sums secured by this Deed of Trust upon the sale or transfer, without the Lender's prior written consent, of all or any part of the Real Property, or any interest in the Real Property. A "sale or transfer" means the conveyance of Real Property or any right, title or interest therein; whether legal, beneficial or equitable; whether voluntary or involuntary; whether by outright sale, deed, installment sale contract, land contract, contract for deed, leasehold interest with a term greater than three (3) years, lease--option contract, or by sale, assignment, or transfer of any beneficial interest in or to any land trust holding title to the Real Property, or by any other method of conveyance of Real Property interest. If any Trustor is a corporation, partnership or limited liability company, transfer also includes any change in ownership of more than twenty-five percent (25%) of the voting stock, partnership interests or limited liability company interests, as the case may be, of Trustor. However, this option shall not be exercised by Lender if such exercise is prohibited by applicable law.

TAXES AND LIENS. The following provisions relating to the taxes and liens on the Property are a part of this Deed of Trust.

PAYMENT. Trustor shall pay when due (and in all events at least ten (10) days prior to delinquency) all taxes, special taxes, assessments, charges (including water and sewer), fines and impositions levied against or on account of the Property, and shall pay when due all claims for work done on or for services rendered or material furnished to the Property. Trustor shall maintain the Property free of all liens having priority over or equal to the interest of Lender under this Deed of Trust, except for the lien of taxes and assessments not due and except

as otherwise provided in this Deed of Trust.

RIGHT TO CONTEST. Trustor may withhold payment of any tax, assessment, or claim in connection with a good faith dispute over the obligation to pay, so long as Lender's interest in the Property is not jeopardized. If a lien arises or is filed as a result of nonpayment, Trustor shall within fifteen (15) days after the lien arises or, if a lien is filed, within fifteen (15) days after Trustor has notice of the filing, secure the discharge of the lien, or if requested by Lender, deposit with Lender cash or a sufficient corporate surety bond or other security satisfactory to Lender in an amount sufficient to discharge the lien plus any costs and attorneys' fees or other charges that could accrue as a result of a foreclosure or sale under the lien. In any contest, Trustor shall defend itself and Lender and shall satisfy any adverse judgment before enforcement against the Property. Trustor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

EVIDENCE OF PAYMENT. Trustor shall upon demand furnish to Lender satisfactory evidence of payment of the taxes or assessments and shall authorize the appropriate governmental official to deliver to Lender at any time a written statement of the taxes and assessments against the Property.

NOTICE OF CONSTRUCTION. Trustor shall notify Lender at least fifteen (15) days before any work is commenced, any services are furnished, or any materials are supplied to the Property, if any mechanic's lien, materialmen's lien, or other lien could be asserted on account of the work, services, or materials and the cost exceeds $1,000.00. Trustor will upon request of Lender furnish to Lender advance assurances satisfactory to Lender that Trustor can and will pay the cost of such improvements.

PROPERTY DAMAGE INSURANCE. The following provisions relating to insuring the Property are a part of this Deed of Trust.

MAINTENANCE OF INSURANCE. Trustor shall procure and maintain policies of fire insurance with standard extended coverage endorsements on a replacement basis for the full insurable value covering all improvements on the Real Property in an amount sufficient to avoid application of any coinsurance clause, and with a standard mortgagee clause in favor of Lender. Trustor shall also procure and maintain comprehensive general liability insurance in such coverage amounts as Lender may request with trustee and Lender being named as additional insureds in such liability insurance policies. Additionally, Trustor shall maintain such other insurance, including but not limited to hazard, business interruption, and boiler insurance, as Lender may reasonably require. Notwithstanding the foregoing, in no event shall Trustor be required to provide hazard insurance in excess of the replacement value of the improvements on the Real Property. Policies shall be written in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Trustor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Trustor or any other person. Should the Real Property at any time become located in an area designated by the Director of the Federal Emergency Management Agency as a special flood hazard area, Trustor agrees to obtain and maintain Federal Flood Insurance for the full unpaid principal balance of the loan and any prior liens on the property securing the loan, up to the maximum policy limits set under the National Flood Insurance Program, or as otherwise required by Lender, and to maintain such insurance for the term of the loan.

APPLICATION OF PROCEEDS. Trustor shall promptly notify Lender of any loss or damage to the Property if the estimated cost of repair or replacement exceeds $1,000,00. Lender may make proof of loss if Trustor fails to do so within fifteen (15) days of the casualty. If in Lender's sole judgment Lender's security interest in the Property has been impaired, Lender may, at its election, receive and retain the proceeds of any insurance and apply the proceeds to the reduction of the Indebtedness, payment of any lien affecting the Property, or the

restoration and repair of the Property. If the proceeds are to be applied to restoration and repair, Trustor shall repair or replace the damaged or destroyed Improvements in a manner satisfactory to Lender. Lender shall, upon satisfactory proof of such expenditure, pay or reimburse Trustor from the proceeds for the reasonable cost of repair or restoration if Trustor is not in default under this Deed of Trust. Any proceeds which have not been disbursed within 180 days after their receipt and which Lender has not committed to the repair or restoration of the Property shall be used first to pay any amount owing to Lender under this Deed of Trust, then to pay accrued interest, and the remainder, if any, shall be applied to the principal balance of the Indebtedness. If Lender holds any proceeds after payment in full of the Indebtedness, such proceeds shall be paid to Trustor as Trustor's interest may appear.

UNEXPIRED INSURANCE AT SALE. Any unexpired insurance shall inure to the benefit of, and pass to, the purchaser of the Property covered by this Deed of Trust at any trustee's sale or other sale held under the provisions of this Deed of Trust, or at any foreclosure sale of such Property.

TRUSTOR'S REPORT ON INSURANCE. Upon request of Lender, however not more than once a year, Trustor shall furnish to Lender a report on each existing policy of insurance showing: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured, the then current replacement value of such property, and the manner of determining that value; and (e) the expiration date of the policy. Trustor shall, upon request of Lender, have an independent appraiser satisfactory to Lender to determine the cash value replacement cost of the Property.

TAX AND INSURANCE RESERVES. Subject to any limitations set by applicable law, Lender may require Trustor to maintain with Lender reserves

for payment of annual taxes, assessments, and insurance premiums, which reserves shall be created by advance payment or monthly payments of a sum estimated by Lender to be sufficient to produce amounts at least equal to the taxes, assessments, and insurance premiums to be paid. The reserve funds shall be held by Lender as a general deposit from Trustor, which Lender may satisfy by payment of the taxes, assessments, and insurance premiums required to be paid by Trustor as they become due. Lender shall have the right to draw upon the reserve funds to pay such items, and Lender shall not be required to determine the validity or accuracy of any item before paying it. Nothing in the Deed of Trust shall be construed as requiring Lender to advance other monies for such purposes, and Lender shall not incur any liability for anything it may do or omit to do with respect to the reserve account. Subject to any limitations set by applicable law, if the reserve funds disclose a shortage or deficiency, Trustor shall pay such shortage or deficiency as required by Lender. All amounts in the reserve account are hereby pledged to further secure the Indebtedness, and Lender is hereby authorized to withdraw and apply such amounts on the Indebtedness upon the occurrence of an Event of Default. Lender shall not be required to pay any interest or earnings on the reserve funds unless required by law or agreed to by Lender in writing. Lender does not hold the reserve funds in trust for Trustor, and Lender is not Trustor's agent for payment of the taxes and assessments required to be paid by Trustor.

EXPENDITURES OF LENDER. If Trustor fails to comply with any provision of this Deed of Trust, or if any action or proceeding is commenced that would materially affect Lender's interests in the Property, Lender on Trustor's behalf may, but shall not be required to, take any action that Lender deems appropriate. Any amount that Lender expends in so doing will bear interest at the rate provided for in the Note from the date incurred or paid by Lender to the date of repayment by Trustor. All such expenses, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Deed of Trust also will secure payment of these amounts. The rights provided for in this paragraph

shall be in addition to any other rights or any remedies to which Lender may be entitled on account of the default. Any such action by Lender shall not be construed as curing the default so as to bar Lender from any remedy that it otherwise would have had.

WARRANTY; DEFENSE OF TITLE. The following provisions relating to ownership of the Property are a part of this Deed of Trust.

TITLE. Trustor warrants that: (a) Trustor holds good and marketable title of record to the Property in fee simple, free and clear of all liens and encumbrances other than those set forth in the Real Property description or in any title insurance policy, title report, or final title opinion issued in favor of, and accepted by, Lender in connection with this Deed of Trust, and (b) Trustor has the full right, power, and authority to execute and deliver this Deed of Trust to Lender.

DEFENSE OF TITLE. Subject to the exception in the paragraph above, Trustor warrants and will forever defend the title to the Property against the lawful claims of all persons. In the event any action or proceeding is commenced that questions Trustor's title or the Interest of Trustee or Lender under this Deed of Trust, Trustor shall defend the action at Trustor's expense. Trustor may be the nominal party in such proceeding, but Lender shall be entitled to participate in the proceeding and to be represented in the proceeding by counsel of Lender's own choice, and Trustor will deliver, or cause to be delivered, to Lender such instruments as Lender may request from time to time to permit such participation.

COMPLIANCE WITH LAWS. Trustor warrants that the Property and Trustor's use of the Property complies with all existing applicable laws, ordinances, and regulations of governmental authorities.

CONDEMNATION. The following provisions relating to eminent domain and inverse condemnation proceedings are a part of this Deed of Trust.

APPLICATION OF NET PROCEEDS. If any award is made or settlement entered into in any condemnation proceedings affecting all or any part of the Property or by any proceeding or purchase in lieu of condemnation, Lender may at its election, and to the extent permitted by law, require that all or any portion of the award or settlement be applied to the Indebtedness and to the repayment of all reasonable costs, expenses, and attorneys' fees incurred by Trustee or Lender in connection with the condemnation proceedings.

PROCEEDINGS. If any eminent domain or inverse condemnation proceeding is commenced affecting the Property, Trustor shall promptly notify Lender in writing, and Trustor shall promptly take such steps as may be necessary to pursue or defend the action and obtain the award. Trustor may be the nominal party in any such proceeding, but Lender shall be entitled, at its election, to participate in the proceeding and to be represented in the proceeding by counsel of its own choice, and Trustor will deliver or cause to be delivered to Lender such instruments as may be requested by it from time to time to permit such participation.

IMPOSITION OF TAXES, FEES AND CHARGES BY GOVERNMENTAL AUTHORITIES. The following provisions relating to governmental taxes, fees and charges are a part of this Deed of Trust:

CURRENT TAXES, FEES AND CHARGES. Upon request by Lender, Trustor shall execute such documents in addition to this Deed of Trust and take whatever other action is requested by Lender to perfect and continue Lender's lien on the Real Property. Trustor shall reimburse Lender for all taxes, as described below, together with all expenses incurred in recording, perfecting or continuing this Deed of Trust, including without limitation all taxes, fees, documentary stamps, and other charges for recording or registering this Deed of Trust.

TAXES. The following shall constitute taxes to which this section applies: (a) a specific tax upon this type of Deed of Trust or upon all or any part of the Indebtedness secured by this Deed of Trust; (b) a specific tax on Trustor which Trustor is authorized or required to deduct from payments on the Indebtedness secured by this type of Deed of Trust; (c) a tax on this type of Deed of Trust chargeable against the Lender or the holder of the Note; and (d) a specific tax on all or any portion of the Indebtedness or on payments of principal and interest

made by Trustor.

SUBSEQUENT TAXES. If any tax to which this section applies is enacted subsequent to the date of this Deed of Trust, this event shall have the same effect as an Event of Default (as defined below), and Lender may exercise any or all of its available remedies for an Event of Default as provided below unless Trustor either (a) pays the tax before it becomes delinquent, or (b) contests the tax as provided above in the Taxes and Liens section and deposits with Lender cash or a sufficient corporate surety bond or other security satisfactory to Lender.

SECURITY AGREEMENT; FINANCING STATEMENTS. The following provisions relating to this Deed of Trust as a security agreement are a part of this Deed of Trust.

SECURITY AGREEMENT. This instrument shall constitute a security agreement to the extent any of the Property constitutes fixtures or other personal property, and Lender shall have all of the rights of a secured party under the Uniform Commercial Code as amended from time to time.

SECURITY INTEREST. Upon request by Lender, Trustor shall execute financing statements and take whatever other action is requested by Lender to perfect and continue Lender's security interest in the Rents and Personal Property. Trustor shall reimburse Lender for all expenses incurred in perfecting or continuing this security interest. Upon default, Trustor shall assemble the Personal Property in a manner and at a place reasonably convenient to Trustor and Lender and make it available to Lender within three (3) days after receipt of written demand from Lender.

ADDRESSES. The mailing addresses of Trustor (debtor) and Lender (secured party), from which information concerning the security interest granted by this Deed of Trust may be obtained (each as required by the Uniform Commercial Code), are as stated on the first page of this Deed of Trust.

FURTHER ASSURANCES; ATTORNEY-IN-FACT. The following provisions relating to further assurances and attorney-in-fact are a part of this Deed of Trust.

FURTHER ASSURANCES. At any time, and from time to time, upon request of Lender, Trustor will make, execute and deliver, or will cause to be made, executed or delivered, to Lender or to Lender's designee, and when requested by Lender, cause to be filed, recorded, refiled, or rerecorded, as the case may be, at such times and in such offices and places as Lender may deem appropriate, any and all such mortgages, deeds of trust, security deeds, security agreements, financing statements, continuation statements, instruments of further assurance, certificates, and other documents as may, in the sole opinion of Lender, be necessary or desirable in order to effectuate, complete, perfect, continue, or preserve (a) the obligations of Trustor under the Note, this Deed of Trust, and the Related Documents, and (b) the liens and security interests created by this Deed of Trust as first and prior Liens on the Property, whether now owned or hereafter acquired by Trustor. Unless prohibited by law or agreed to the contrary by Lender in writing, Trustor shall reimburse Lender for all costs and expenses incurred in connection with the matters referred to in this paragraph.

ATTORNEY-IN-FACT. If Trustor fails to do any of the things referred to in the preceding paragraph, Lender may do so for and in the name of Trustor and at Trustor's expense. For such purposes, Trustor hereby irrevocably appoints Lender as Trustor's attorney-in-fact for the purpose of making, executing, delivering, filing, recording, and doing all other things as may be necessary or desirable, in Lender's sole opinion, to accomplish the matters referred to in the preceding paragraph.

FULL PERFORMANCE. If Trustor pays all the Indebtedness when due, and otherwise performs all the obligations imposed upon Trustor under this Deed of Trust, Lender shall execute and deliver to Trustee a request for full

reconveyance and shall execute and deliver to Trustor suitable statements of termination of any financing statement on file evidencing Lender's security interest in the Rents and the Personal Property. Lender may charge Trustor a reasonable reconveyance fee at the time of reconveyance.

DEFAULT. Each of the following, at the option of Lender, shall constitute an event of default ("Event of Default") under this Deed of Trust:

DEFAULT ON INDEBTEDNESS. Failure of Trustor to make any payment when due on the Indebtedness.

DEFAULT ON OTHER PAYMENTS. Failure of Trustor within the time required by this Deed of Trust to make any payment for taxes or insurance, or any other payment necessary to prevent filing of or to effect discharge of any lien.

COMPLIANCE DEFAULT. Failure of Trustor to comply with any other term, obligation, covenant or condition contained in this Deed of Trust, the Note or in any of the Related Documents.

FALSE STATEMENTS. Any warranty, representation or statement made or furnished to Lender by or on behalf of Trustor under this Deed of Trust, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

DEFECTIVE COLLATERALIZATION. This Deed of Trust or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

DEATH OR INSOLVENCY. The dissolution (regardless of whether election to continue is made), any member withdraws from the limited liability company, or any other termination of Trustor's existence as a going business or the death of any member, the insolvency of Trustor, the appointment of a receiver for any part of Trustor's property, any assignment for the benefit of creditors, any type of credit or workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Trustor.

FORECLOSURE, FORFEITURE, ETC. Commencement of foreclosure of forfeiture proceedings, whether by judicial proceeding, self-help, repossession of any other method, by any creditor of Trustor or by any governmental agency against any of the Property. However, this subsection shall not apply in the event of a good faith dispute by Trustor as to the validity or reasonableness of the claim which is the basis of the foreclosure or forfeiture proceeding, provided that Trustor gives Lender written notice of such claim and furnishes reserves or a surety bond for the claim satisfactory to Lender.

BREACH OF OTHER AGREEMENT. Any breach by Trustor under the terms of any other agreement between Trustor and Lender that is not remedied within any grace period provided therein, including without limitation any agreement concerning any indebtedness or other obligation of Trustor to Lender, whether existing now or later.

EVENTS AFFECTING GUARANTOR. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness of any Guarantor dies of becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness. Lender, at its option, may, but shall not be required to, permit the Guarantor's estate to assume unconditionally the obligations arising under the guaranty in a manner satisfactory to Lender, and, in doing so, cure the Event of Default.

ADVERSE CHANGE. A material adverse change occurs in Trustor's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired.

RIGHT TO CURE. If such a failure is curable and if Trustor has not been given a notice of a breach of the same provision of this Deed of Trust within the preceding twelve (12) months, it may be cured (and no Event of Default will have occurred) if Trustor, after Lender sends written notice demanding cure of such failure: (a) cures the failure within fifteen (15) days; or (b) if the cure requires more than fifteen (15) days, immediately initiates steps sufficient to cure the failure and

thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES OF DEFAULT. Upon the occurrence of any Event of Default and at any time thereafter, Trustee or Lender, at its option, may exercise any one or more of the following rights and remedies, in addition to any other rights of remedies provided by the law:

FORECLOSURE BY SALE. Upon an Event of Default under this Deed of Trust, Beneficiary may declare the entire indebtedness secured by this Deed of Trust immediately due and payable by delivery to Trustee of written declaration of default and demand for sale and of written notice of default and of election to cause to be sold the Property, which notice Trustee shall cause to be filed for record. Beneficiary also shall deposit with Trustee this Deed of Trust, the Note, other documents requested by Trustee and all documents evidencing expenditures secured hereby. After the lapse of such time as may then be required by law following the recordation of the notice of default, and notice of sale having been given as then required by law, Trustee, without demand on Trustor, shall sell the Property at the time and place fixed by it in the notice of sale, either as a whole or in separate parcels, and in such order as it may determine, at public auction to the highest bidder for cash in lawful money of the United States, payable at time of sale. Trustee may postpone sale of all or any portion of the Property by public announcement at such

time and place of sale, and from time to time thereafter may postpone such sale by public announcement at the timed fixed by the preceding postponement in accordance with applicable law. Trustee shall deliver to such purchaser its deed conveying the Property so sold, but without any covenant or warranty, express or implied. The recitals in such deed of any matters or facts shall be conclusive proof of the truthfulness thereof. Any person, including Trustor, Trustee or Beneficiary may purchase at such sale. After deducting all costs, fees and expenses of Trustee and of this Trust, including cost of evidence of title in connection with sale, Trustee shall apply the proceeds of sale to payment of: all sums expended under the terms hereof, not then repaid, with accrued interest at the amount allowed by law in effect at the date hereof; all other sums then secured hereby; and the remainder, if any, to the person or persons legally entitled thereto.

JUDICIAL FORECLOSURE. With respect to all or any part of the Real Property, Lender shall have the right in lieu of foreclosure by power of sale to foreclose by judicial foreclosure in accordance with and to the full extent provided by California law.

UCC REMEDIES. With respect to all or any part of the Personal Property, Lender shall have all the rights and remedies of a secured party under the Uniform Commercial Code, including without limitation the right to recover any deficiency in the manner and to the full extent provided by California law.

COLLECT RENTS. Lender shall have the right, without notice to Trustor, to take possession of and manage the Property and collect the Rents, including amounts past due and unpaid, and apply the net proceeds, over and above Lender's costs, against the Indebtedness. In furtherance of this right, Lender may require any tenant or other user of the Property to make payments of rent or use fees directly to Lender. If the Rents are collected by Lender, then Trustor irrevocably designates Lender as Trustor's attorney-in-fact to endorse instruments received in payment thereof in the name of Trustor and to negotiate the same and collect the proceeds. Payments by tenants or other users to Lender in response to Lender's demand shall satisfy the obligations or which the payments are made, whether or not any proper grounds for the demand existed. Lender may exercise its rights under this subparagraph either in person, by agent, or through a receiver.

APPOINT RECEIVER. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Property, with the power to protect and preserve the Property, to operate the Property preceding foreclosure or sale, and to collect the Rents from the Property and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Property exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

TENANCY AT SUFFERANCE. If Trustor remains in possession of the Property after the Property is sold as provided above or Lender otherwise becomes entitled to possession of the Property upon default of Trustor, Trustor shall become a tenant at sufferance of Lender or the purchaser of the Property and shall, at Lender's option, either (a) pay a reasonable rental for the use of the Property, or (b) vacate the Property immediately upon the demand of Lender.

OTHER REMEDIES. Trustee or Lender shall have any other right or remedy provided in this Deed of Trust or the Note or by law.

NOTICE OF SALE. Lender shall give Trustor reasonable notice of the time and place of any public sale of the Personal Property or of the time after which any private sale or other intended disposition of the Personal Property is to be made. Reasonable notice shall mean notice given at least five (5) days before the time of the sale or disposition. Any sale of Personal Property may be made in conjunction with any sale of the Real Property.

SALE OF THE PROPERTY. To the extent permitted by applicable law, Trustor hereby waives any and all rights to have the Property marshalled. In exercising its rights and remedies, the Trustee or Lender shall be free to sell all or any part of the Property together or separately, in one sale or by separate sales. Lender shall be entitled to bid at any public sale on all or any portion of the Property.

WAIVER; ELECTION OF REMEDIES. A waiver by any party of a breach of a provision of this Deed of Trust shall not constitute a waiver of or prejudice the party's rights otherwise to demand strict compliance with that provision or any other provision. Election by Lender to pursue any remedy provided in this Deed of Trust, the Note, in any Related Document, or provided by law shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Trustor under this Deed of Trust after failure of Trustor to perform shall not affect Lender's right to declare a default and to exercise any of its remedies.

ATTORNEYS' FEES; EXPENSES. If Lender institutes any suit or action to enforce any of the terms of this Deed of Trust, Lender shall be entitled to recover such sum as the court may adjudge reasonable as attorneys' fees at trial and on any appeal. Whether or not any court action is involved, all reasonable expenses incurred by Lender which in Lender's opinion are necessary at any time for the protection of its interest or the enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest at the Note rate from the date of expenditure until repaid. Expenses covered by this paragraph include, without limitation, however subject to any limits under applicable law, Lender's attorneys' fees whether or not there is a lawsuit, including attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals and any anticipated post-judgment collection services, the cost of searching records, obtaining title reports (including foreclosure reports), surveyors' reports, appraisal fees, title insurance, and fees for the Trustee, to the extent permitted by applicable law. Trustor also will pay any court costs, in addition to all other sums provided by law.

RIGHTS OF TRUSTEE. Trustee shall have all of the rights and duties of Lender as set forth in this section.

POWERS AND OBLIGATIONS OF TRUSTEE. The following provisions relating to the powers and obligations of Trustee are part of this Deed of Trust.

POWERS OF TRUSTEE. In addition to all powers of Trustee arising as a

matter of law, Trustee shall have the power to take the following actions with respect to the Property upon the written request of Lender and Trustor: (a) join in preparing and filing a map or plat of the Real Property, including the dedication of streets or other rights to the public; (b) join in granting any easement or creating any restriction on the Real Property; and (c) join in any subordination or other agreement affecting this Deed of Trust or the interest of Lender under this Deed of Trust.

OBLIGATIONS TO NOTIFY. Trustee shall not be obligated to notify any other party of a pending sale under any other trust deed or lien, or of any action or proceeding in which Trustor, Lender, or Trustee shall be a party, unless the action or proceeding is brought by Trustee.

TRUSTEE. Trustee shall meet all qualifications required for Trustee under applicable law. In addition to the rights and remedies set forth above, with respect to all or any part of the Property, the Trustee shall have the right to foreclose by notice and sale, and Lender shall have the right to foreclose by judicial foreclosure, in either case in accordance with and to the full extent provided by applicable law.

SUCCESSOR TRUSTEE. Lender, at Lender's option, may from time to time appoint a successor Trustee to any Trustee appointed hereunder by an instrument executed and acknowledged by Lender and recorded in the office of the recorder of Santa Barbara County, California. The instrument shall contain, in addition to all other matters required by state law, the names of the original Lender, Trustee, and Trustor, the book and page where this Deed of Trust is recorded, and the name and address of the successor trustee, and the instrument shall be executed and

acknowledged by Lender or its successors in interest. The successor trustee, without conveyance of the Property, shall succeed to all the title, power, and duties conferred upon the Trustee in this Deed of Trust and by applicable law. This procedure for substitution of trustee shall govern to the exclusion of all other provisions for substitution.

NOTICES TO TRUSTOR AND OTHER PARTIES. Any notice under this Deed of Trust shall be in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered, or when deposited with a nationally recognized overnight courier, or, if mailed, shall be deemed effective when deposited in the United States mail first class, certified or registered mail, postage prepaid, directed to the addresses shown near the beginning of this Deed of Trust. Any party may change its address for notices under this Deed of Trust by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. All copies of notices of foreclosure from the holder of any lien which has priority over this Deed of Trust shall be sent to Lender's address, as shown near the beginning of this Deed of Trust. For notice purposes, TRUSTOR agrees to keep Lender and Trustee informed at all times of Trustor's current address. Each Trustor requests that copies of any notices of default and sale be directed to Trustor's address shown near the beginning of this Deed of Trust.

STATEMENT OF OBLIGATION. Lender may collect a fee, in an amount not to exceed the statutory maximum, for furnishing the statement of obligation as provided by Section 2943 of the Civil Code of California.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Deed of Trust:

AMENDMENTS. This Deed of Trust, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Deed of Trust. No alteration of or amendment to this Deed of Trust shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ANNUAL REPORTS. If the Property is used for purposes other than

Trustor's residence, Trustor shall furnish to Lender, upon request, a certified statement of net operating income received from the Property during Trustor's previous fiscal year in such form and detail as Lender shall require. "Net operating Income" shall mean all cash receipts from the Property less all cash expenditures made in connection with the operation of the Property.

ACCEPTANCE BY TRUSTEE. Trustee accepts this Trust when this Deed of Trust, duly executed and acknowledged, is made a public record as provided by law.

ARBITRATION. Lender and Trustor agree that all disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Deed of Trust or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the American Arbitration Association, upon request of either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement. This includes, without limitation,obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any Collateral, including any claim to rescind, reform, or otherwise modify any agreement relating to the Collateral, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Lender and Trustor agree that in the event of an action for judicial foreclosure pursuant to California Code of Civil Procedure Section 726, or any similar provision in any other state, the commencement of such an action will not constitute a waiver of the right to arbitrate and the court shall refer to arbitration as much of such action, including counterclaims, as lawfully may be referred to arbitration. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Deed of Trust shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision.

APPLICABLE LAW. This Deed of Trust has been delivered to Lender and accepted by Lender in the State of California. Subject to the provisions on arbitration, this Deed of Trust shall be governed by and construed in accordance with the laws of the State of California.

CAPTION HEADINGS. Caption headings in this Deed of Trust are for convenience purposes only and are not to be used to interpret or define the provisions of this Deed of Trust.

MERGER. There shall be no merger of the interest or estate created by this Deed of Trust with any other interest or estate in the Property at any time held by or for the benefit of Lender in any capacity, without the written consent of Lender.

MULTIPLE PARTIES. All obligations of Trustor under this Deed of Trust shall be joint and several, and all references to Trustor shall mean each and every Trustor. This means that each of the persons signing below is responsible for all obligations in this Deed of Trust.

SEVERABILITY. If a court of competent jurisdiction finds any provision of this Deed of Trust to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Deed of Trust in all other respects shall remain valid and enforceable.

SUCCESSORS AND ASSIGNS. Subject to the limitations stated in this Deed of Trust on transfer of Trustor's interest, this Deed of Trust shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Property becomes vested in a person other than Trustor, Lender, without notice to Trustor, may deal with Trustor's successors with reference to this Deed of Trust and the Indebtedness by way of forbearance or extension without releasing Trustor from the obligations of this Deed of Trust or liability under the Indebtedness.

TIME IS OF THE ESSENCE. Time is of the essence in the performance of this Deed of Trust.

WAIVERS AND CONSENTS. Lender shall not be deemed to have waived any rights under this Deed of Trust (or under the Related Documents) unless such waiver is in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by any party of a provision of this Deed of Trust shall not constitute a waiver of or prejudice the party's right otherwise to demand strict compliance with that provision or any other provision. No prior waiver by Lender, nor any course of dealing between Lender and Trustor, shall constitute a waiver of any Lender's rights or any of Trustor's obligations as to any future transactions. Whenever consent by Lender is required in this Deed of Trust, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required.

EACH TRUSTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS DEED OF TRUST, AND EACH TRUSTOR AGREES TO ITS TERMS, INCLUDING THE VARIABLE RATE PROVISIONS OF THE NOTE SECURED BY THIS DEED OF TRUST.

TRUSTOR:

QAD ORTEGA HILL, LLC, a Delaware Limited Liability Company, d/b/a QAD OH,LLC in California

By: /s/ Barry R. Anderson
Barry R. Anderson Manager

CERTIFICATE OF ACKNOWLEDGMENT

STATE OF CALIFORNIA)
) SS
COUNTY OF SANTA BARBARA)

On November 9, 1999, before me, Araceli Hidalgo, Notary Public, personally appeared Barry R. Anderson, Manager of QAD ORTEGA HILL, LLC, a Delaware Limited Liability Company, d/b/a QAD OH,LLC in California, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature /s/ Araceli Hidalgo (Seal)

(DO NOT RECORD)
REQUEST FOR FULL RECONVEYANCE
(To be used only when obligations have been paid in full)

To: _____,Trustee

The undersigned is the legal owner and holder of all indebtedness secured by this Deed of Trust. All sums secured by this Deed of Trust have been fully paid and satisfied. You are hereby directed, upon payment to you of any sums owing to you under the terms of this Deed of Trust or pursuant to any applicable statute, to cancel the Note secured by this Deed of Trust (which is delivered to you together with this Deed of Trust), and to reconvey, without warranty, to the parties designated by the terms of this Deed of Trust, the estate now held by you under this Deed of Trust. Please mail the reconveyance and Related Documents to:

_____.

Date: _____ Beneficiary: _____

By: _____

Its: _____

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EXHIBIT "A"

THAT PORTION OF THE ORTEGA RANCHO, BEING A PORTION OF THE OUTSIDE PUEBLO LANDS OF THE CITY OF SANTA BARBARA, IN THE COUNTY OF SANTA BARBARA, STATE OF CALIFORNIA, ACCORDING TO THE MAP THEREOF, RECORDED IN BOOK 1, AT PAGE 20, OF MAPS AND SURVEYS, RECORDS OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT AN OLD STAKE SET AT THE NORTHERLY CORNER OF A TRACT OF LAND DESCRIBED IN THE DEED TO HIRAM CRAIG, DATED AUGUST 2, 1894, AND RECORDED IN BOOK 47, PAGE 154 OF DEEDS; THENCE ALONG THE SOUTHERLY LINE OF THE OLD COUNTY ROAD OVER ORTEGA HILL NORTH 54 DEGREES 53' WEST 316.7 FEET; THENCE CONTINUING ALONG THE SOUTHERLY LINE OF SAID ROAD NORTH 63 DEGREES 24' WEST 565.68 FEET, MORE OR LESS, TO INTERSECT THE SOUTHERLY PROLONGATION OF THE 32ND COURSE OF PARCEL ONE AS DESCRIBED IN THAT CERTAIN DEED OF TRUST EXECUTED BY D. C. WILLIAMS, AND WIFE, DATED APRIL 22, 1938, AND RECORDED IN BOOK 404, PAGE 375 OF OFFICIAL RECORDS; THENCE ALONG SAID PROLONGATION NORTH 12 DEGREES 22' EAST TO THE SOUTHERLY END OF SAID 32ND COURSE; THENCE ALONG THE NORTHERLY AND WESTERLY LINE OF PARCEL ONE, IN SAID DEED OF TRUST THE FOLLOWING COURSES AND DISTANCES; SOUTH 87 DEGREES 22' WEST 363.66 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN ROAD BED; NORTH 83 DEGREES 53' WEST 269.94 FEET TO AN IRON PIPE SET IN ROAD BED; SOUTH 37 DEGREES 52' WEST 132.66 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN ROAD BED; SOUTH 22 DEGREES 22' WEST 188.1 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN ROAD BED; SOUTH 53 DEGREES 07' WEST 266.64 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN ROAD BED; SOUTH 22 DEGREES 52' WEST (AT 240.42 FEET, A GALVANIZED IRON ROD SET IN ROAD BED) 248.72 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN ROAD BED; SOUTH 61 DEGREES 58' EAST 28.04 FEET TO A NAIL IN TOP FENCE POST MARKED "PC NO. 3", SOUTH 51 DEGREES 13' EAST 24 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN MOUND OF ROCKS; SOUTH 13 DEGREES 43' EAST 50 FEET TO AN IRON PIPE SURVEY MONUMENT SET IN MOUND OF ROCKS; AND SOUTH 29 DEGREES 58' EAST TO INTERSECT THE NORTHERLY LINE OF THE STATE HIGHWAY RIGHT OF WAY AS DESCRIBED IN THE DEED TO THE STATE OF CALIFORNIA DATED SEPTEMBER 29, 1933 AND RECORDED IN BOOK 289, PAGE 291 OF OFFICIAL RECORDS; THENCE LEAVING THE LINE OF SAID DEED OF TRUST AND FOLLOWING ALONG THE NORTHERLY LINE OF SAID STATE HIGHWAY IN AN EASTERLY DIRECTION TO INTERSECT THE SOUTHERLY PROLONGATION OF THE WESTERLY LINE OF THE CRAIG TRACT ABOVE REFERRED TO; THENCE ALONG SAID PROLONGATION AND SAID WESTERLY LINE NORTH 2 DEGREES 01' EAST TO A POINT WHICH LIES SOUTH 2 DEGREES 01' WEST, 75.95 FEET FROM THE POINT OF BEGINNING; THENCE NORTH 33 DEGREES 23' 15" WEST,

12.74 FEET; THENCE NORTH 08 DEGREES 24' 53" EAST, 54.74 FEET; THENCE NORTH 08 DEGREES 33' 08" E, 11.25 FEET TO THE POINT OF BEGINNING.

EXCEPTING THEREFROM THOSE PORTIONS THEREOF CONVEYED TO THE STATE OF CALIFORNIA BY DEEDS RECORDED NOVEMBER 6, 1933, AS INSTRUMENT NO. 6970, IN BOOK 289 PAGE 291 AND RECORDED DECEMBER 29, 1944, AS INSTRUMENT NO. 12819, IN BOOK 630 PAGE

429, AND RECORDED DECEMBER 29, 1944 AS INSTRUMENT NO. 12820, IN BOOK 630 PAGE 431 AND RECORDED AUGUST 6, 1949, AS INSTRUMENT NO. 9672, IN BOOK 867, PAGE 290, AND RECORDED AUGUST 10, 1949 AS INSTRUMENT NO. 9352 IN BOOK 868, PAGE 128 AND RECORDED JULY 11, 1950, AS INSTRUMENT NO. 9776, IN BOOK 928, PAGE 110, ALL OF OFFICIAL RECORDS.

ALSO EXCEPTING THEREFROM 2.38 PERCENT OF THE OIL, GAS AND OTHER HYDROCARBON SUBSTANCES THAT MAY BE PRODUCED AND SAVED FROM SAID LAND AS CONVEYED IN DEED RECORDED MAY 11, 1938 AS INSTRUMENT NO, 4073, IN BOOK 436, PAGE 54 OF OFFICIAL RECORDS.

ALSO EXCEPTING THEREFROM AN UNDIVIDED ONE-FOURTH (1/4) INTEREST IN AND TO ALL OIL, GAS AND OTHER HYDROCARBON SUBSTANCES OF EVERY KIND AND NATURE THAT MAY BE PRODUCED OR DEVELOPED FROM SAID LAND AS RESERVED IN DEED RECORDED DECEMBER 28, 1954 AS INSTRUMENT NO. 22752, IN BOOK 1288, PAGE 474 OF OFFICIAL RECORDS.

EXHIBIT 10.52

NINTH AMENDMENT TO OFFICE LEASE

This Ninth Amendment to Office Lease is entered into between Matco Enterprises, Inc., a Washington corporation, hereinafter referred to as "Landlord", and QAD. Inc., a California corporation, hereinafter referred to as "Tenant".

This Ninth Amendment to Office Lease is made in reference to the following facts:

A. Landlord and Tenant entered into an Office Lease dated November 30, 1992, for Suites I, K and L located at 5464 Carpinteria Avenue, Carpinteria, California, hereinafter "Office Lease".

B. Landlord and Tenant entered into a First Amendment To Office Lease dated September 9, 1993, whereby Landlord leased Suites C and H to Tenant on the terms and conditions of the First Amendment To Office Lease.

C. Landlord and Tenant entered into a Second Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Suite J to Tenant on the terms and conditions of the Second Amendment To Office Lease.

D. Landlord and Tenant entered into a Third Amendment To Office Lease dated January 14, 1994, whereby Landlord leased Room B in the basement and temporarily leased Room C in the basement on the terms and conditions of the Third Amendment to Office Lease.

E. Landlord and Tenant entered into a Fourth Amendment to Office Lease dated February 15, 1994, whereby Landlord and Tenant agreed the Office Lease would terminate as to Suite H only.

F. Landlord and Tenant entered into a Fifth Amendment to Office Lease dated September 12, 1994, whereby Landlord leased Suites G and E to Tenant on the terms and conditions of the Fifth Amendment to Office Lease.

G. Landlord and Tenant entered into a Sixth Amendment to Office Lease dated October 30, 1996, whereby Landlord leased Suites A,B,D,F,H, and Basement Room A to Tenant on the terms and conditions of the Sixth Amendment to Office Lease.

H. Landlord and Tenant entered into a Seventh Amendment to Office Lease dated February, 1998, memorializing the terms and conditions of Tenant's exercise of its first one year option to renew the lease for one additional year for Suites I,K,L,C,J and Basement B.

I. Landlord and Tenant entered into an Eight Amendment to Office Lease dated February, 1999, memorializing the terms and conditions of Tenant's exercise of its second and third one year options to renew the lease for two additional years for Suites I,K,L,C,J and Basement B.

J. The tenant desires to exercise its first option to renew the lease for Suites G and E pursuant to the terms and conditions of the Office Lease as Amended.

IT IS AGREED:

1. RENEWAL OF LEASE.
Tenant hereby exercises the first option to renew the lease as to Suites G and E from September 1, 1999 to August 31, 2000.

2. RENT FOR SUITES G AND E
Tenant shall pay to Landlord as minimum monthly rent without deduction, setoff, prior notice, or demand, the sum of $5,501.30 ($1.45/per square foot

times 3,794 square feet of net rentable square footage of Suites G and E) in advance on the first day of each month commencing September 1, 1999 and continuing during the term of the renewal of the Lease provided for above.

3. ADDITIONAL TERMS.

Except where inconsistent with this Ninth Amendment to Office Lease, the terms and conditions of the Office Lease, as amended in the First, Second, Third, Fourth, Fifth, Sixth, Seventh and Eighth Amendment to Office Lease, shall apply equally to this renewal option period for Suites G and E as to the remainder of the building, including the cost of living adjustment on January 1st of each year pursuant to the terms of Paragraph 5(b) of the Office Lease.

IN WITNESS WHEREOF, the parties have executed this Ninth Amendment To Office Lease on August 23rd, 1999.

LANDLORD: MATCO ENTERPRISES, INC., a Washington corporation

By /s/ MERIKO TAMAKI

MERIKO TAMAKI, President

TENANT: QAD, INC.

By /s/ KARL LOPKER

KARL LOPKER, CEO

By /s/ PAM LOPKER

PAM LOPKER, President

EXHIBIT 21.1

QAD Inc.
Exhibit 21.1

SUBSIDIARIES OF QAD INC.

Name	Place of Incorporation
QAD Ortega Hill, LLC	Delaware
QAD Mark Hill, LLC	Delaware
QAD USVI Inc.	US Virgin Islands
QAD China Inc.	Delaware
Enterprise Engines, Inc.	California
QAD India Inc.	Delaware
QAD Bermuda Ltd.	Bermuda
QAD Brazil Inc.	Delaware
QAD Canada ULC	Canada
QAD Mexico S.A. de C.V.	Mexico
QAD Latin America S.A. de C.V.	Mexico
QAD Latin Integrados Casa de Software, S.A. de C.V.	Mexico
Qad Sistemas Integrados Servicios se Consultoria, S.A. de C.V.	Mexico
QAD Brasil Limitada	Brazil
QAD Europe B.V.	The Netherlands
QAD Netherlands B.V.	The Netherlands
QAD France B.V.	France
QAD Europe GmbH	Germany
QAD Aktiebolag	Sweden
QAD Polska Sp. zo.o	Poland
QAD United Kingdom Ltd.	United Kingdom
QAD Europe Ltd.	United Kingdom
QAD Ireland Limited	Ireland
QAD Bilgisayer Yazilim Ltd.	Turkey
QAD Asia Limited	Hong Kong
QAD Korea Inc.	Delaware
QAD Japan k.k.	Japan
QAD Japan Inc.	Delaware
QAD China Ltd.	China
QAD Singapore Private Ltd.	Singapore
QAD I&I Co., Ltd.	Thailand
QAD Austrialia Pty Ltd.	Australia
QAD Software South Africa (Pty) Ltd.	South Africa

EXHIBIT 23.1

AUDITORS' REPORT ON SCHEDULE AND
CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors of
QAD Inc.:

The audits referred to in our report dated March 3, 2000, except for the last paragraph of note 6, which is as of April 19, 2000, included the related financial statement schedule as of January 31, 2000 and for each of the years in the three-year period ended January 31, 2000, included in the annual report on Form 10-K of QAD Inc. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We consent to incorporation by reference in the registration statement (No. 333-96065) on Form S-3 and in the registration statements (No. 333-48381 and No. 333-35367) on Form S-8 of QAD Inc. of our report dated March 3, 2000, except for the last paragraph of note 6, which is as of April 19, 2000, relating to the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 31, 2000, which report appears in the January 31, 2000, annual report on Form 10-K of QAD Inc.

KPMG LLP

Los Angeles, California
April 28, 2000

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AS OF JANUARY 31, 2000 AND THE CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS FOR THE TWELVE MONTHS ENDED JANUARY 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATMENTS.
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