As Filed with the Securities and Exchange Commission on February 2, 2000
Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
Under
The Securities Act of 1933

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 Number)

6450 Via Real
Carpinteria, California 93013
(805) 684-6614
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Karl F. Lopker
Chief Executive Officer
QAD Inc.
6450 Via Real
Carpinteria, California 93013
(805) 685-9880
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Theodore R. Maloney, Esq.
Nida & Maloney, LLP
800 Anacapa Street
Santa Barbara, California 93101

Approximate date of commencement of proposed sale to the public:
From time to time after this Registration Statement becomes effective.

If the only securities being registered on the form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

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

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

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

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount of Shares to be Registered	Proposed Maximum Offering Price per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value $.001 per share	120,000	$9.00	$1,080,000	$286

(1) Estimated pursuant to Rule 457(c) solely for the purpose of calculating the amount of the registration fee on the basis of the average of the high and low reported sale prices of a share of common stock of $9.00 on January 31, 2000, as reported by the Nasdaq National Market.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHNAGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURIITES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

PROSPECTUS

Subject to Completion

120,000 Shares

QAD Inc.

Common Stock

Shares of common stock of QAD Inc. registered pursuant to the registration statement of which this prospectus is a part, may be sold from time to time for the accounts of and by the persons named under the caption "Selling Shareholders." The Selling Shareholders have advised us that the shares may be sold from time to time on the Nasdaq National Market or in negotiated transactions, in each case at prices satisfactory to the seller. The Selling Shareholders and the brokers and dealers through which the sales of the shares may be made may be deemed to be "underwriters" within the meaning set forth in the Securities Act, and their commissions and discounts and other compensation may be regarded as underwriters' compensation. See "Plan of Distribution." We have issued the shares in accordance with certain private placement transactions.

We will not receive any proceeds from the sale of shares by the Selling Shareholders. All expenses incurred in connection with this offering are being borne by us, other than any commissions or discounts paid or allowed by the Selling Shareholders to underwriters, dealers, brokers or agents.

Our common stock is traded on the Nasdaq under the symbol "QADI." On January 31, 2000, the last sale price of the common stock as reported by the Nasdaq was $9.00.

The common stock offered by this prospectus involves a high degree of risk. See "Risk Factors" beginning on page 4.

These Securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy and adequacy of this prospectus. Any representation to the contrary is a criminal offense.

February __, 2000

AVAILABLE INFORMATION

QAD is subject to the informational requirements of the Securities Exchange Act of 1934 and files reports, proxy statements and other information with the Securities and Exchange Commission. Reports, proxy statements and other information filed by us can be inspected and copied at the public reference

facilities maintained by the Commission at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's Regional Offices at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, Suite 1300, New York, New York 10048. Copies can be obtained at prescribed rates from the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. The Commission maintains a Web site that contains reports, proxy and information statements and other materials that are filed through the Commission's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system. This Web site can be accessed at http://www.sec.gov. Our common stock is listed on the Nasdaq and the reports, proxy statements and other information filed by us also can be inspected at the offices of the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

We have filed with the Commission a registration statement on Form S-3 under the Securities Act with respect to the common stock offered by this prospectus. This prospectus does not contain all the information set forth in the registration statement, portions of which have been omitted as permitted by the rules and regulations of the Commission. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance readers should refer to the copy of that contract or other document filed or incorporated by reference as an exhibit to the registration statement. Each of those statements is qualified in all respects by this reference to the registration statement and the exhibits and schedules to the registration statement. For further information pertaining to QAD or the common stock offered by this prospectus, we refer you to the registration statement and the exhibits and schedules to the registration statement, which may be inspected without charge at, and copies thereof may be obtained at prescribed rates from, the Public Reference Branch of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

This prospectus incorporates documents by reference that are not presented in or delivered with this prospectus, as indicated below. We will provide without charge to each person to whom a copy of this prospectus has been delivered, upon written or oral request, a copy of any or all of the documents referred to below which are incorporated in this prospectus by reference (other than exhibits to those documents, unless they are specifically incorporated by reference into the documents). Requests for copies should be directed to Daniel Lender, QAD Inc., 6450 Via Real, Carpinteria, California 93013. Telephone number (805) 684-6614.

The following documents filed with the Commission by QAD under File No. 333-48381 pursuant to the Exchange Act are incorporated in this prospectus by reference:

- Annual report on Form 10-K for the fiscal year ended January 31, 1999;
- Quarterly report on Form 10-Q for the fiscal quarter ended April 30, 1999;
- Quarterly report on Form 10-Q for the fiscal quarter ended July 31, 1999;
- Quarterly report on Form 10-Q for the fiscal quarter ended October 31, 1999;
- Definitive proxy statement dated May 17, 1999; and
- Current report on Form 8-K dated August 13, 1999.

All documents filed by QAD with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act on or after the date of this prospectus and prior to the termination of the offering of the common stock offered by this prospectus, shall be deemed to be incorporated by reference in this prospectus and to be a part of this prospectus from the date of filing of these documents. See "Available Information." Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any subsequently filed document incorporated or deemed to be incorporated in this prospectus by reference, which

statement is also incorporated in this prospectus by reference, modifies or supersedes the statement. Any statement so modified or superseded shall not be

deemed, except as so modified or superseded, to constitute a part of this prospectus.

No person is authorized in connection with any offering made by this prospectus to give any information or to make any representation not contained in this prospectus, and, if given or made, that information or representation must not be relied upon as having been authorized by us or any Selling Shareholder. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted. Neither the delivery of this prospectus nor any sale made under this prospectus shall under any circumstances create any implication that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

QAD INC.

QAD is a developer and supplier of industry-specific e-business solutions for manufacturers and distributors. Primary among its offerings is the MFG/PRO software, a leading supply-chain-enabled Enterprise Resource Planning, or ERP, software for mid-range and large multinational manufacturing companies. Our software solutions are designed to facilitate global management of resources and information to allow manufacturers to reduce order fulfillment cycle times and inventories, improve operating efficiencies between supply chain links and measure critical company performance criteria against defined business plan objectives. Our solution's flexibility, electronic commerce capability and scalability also helps manufacturers adapt to growth, organizational change, business process reengineering, supply chain management and other challenges. In the latter part of fiscal 1999, we established QAD Global Services in response to customer requests for direct implementation and integration support from QAD.

QAD's principal products address ERP and supply chain needs in an electronic commerce environment. The MFG/PRO software is specifically designed for deployment at the plant or operations levels of mid-range and multinational manufacturers in four targeted industry segments: automotive, consumer products, electronics/industrial, and medical. The MFG/PRO software provides multinational organizations with an integrated ERP solution that is based on an open system, Internet-enabled manufacturing, distribution, financial, and service/support management applications.

We currently are focused on extending our presence in multisite manufacturing by developing a line of optimized supply chain management solutions, formerly known as On/Q software, now being marketed as QAD eQ software and QAD Supply Chain Optimizer software. Our initial on/Q software product, Advanced Planning and Scheduling, or APS, is now part of the QAD Supply Chain Optimizer software suite and is designed to improve asset utilization at every link of the supply chain. We released Advanced Planning and Scheduling in September 1998. We are also developing QAD eQ software, formerly known as On/Q Outbound Logistics. This is an innovative business-to-business, or B2B, Internet order management and exchange applications suite. QAD eQ software will allow for consolidation of orders, contract management, shipping and logistics management. QAD eQ software is currently in beta test phase, and we expect our initial release to be generally commercially available in the spring of 2000.

As of January 31, 1999, QAD had licensed QAD software at more than 4,000 sites in more than 80 countries. QAD's customers include Cargill, Colgate-Palmolive, Johnson Controls, Johnson & Johnson, Lucent Technologies, Philips Electronics, St. Jude Medical, Unilever, Lear Seating, Genzyme and Stryker.

We were founded in 1979 and were incorporated in California as qad.inc in 1986. In February 1997, we changed our name to QAD Inc. and in August 1997 we reincorporated in Delaware. Our executive offices are located at 6450 Via Real, Carpinteria, California 93013, and our telephone number is (805) 684-6614.

RISK FACTORS

This prospectus contains forward-looking statements that involve risks and uncertainties. QAD's actual results could differ materially from those anticipated in these forward-looking statements as a result of numerous factors, including those set forth in the following risk factors and elsewhere in this prospectus. In evaluating our business, you should consider carefully the following factors in addition to the other information set forth in this

prospectus.

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 harder 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 which 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

In the latter part of fiscal 1999, we initiated QAD Global Services, as well as substantially increased the portion of our business related to services through the acquisition of several of our distributors. 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 dependant 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, such 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.

Our recent restructuring efforts may not be successful in addressing quarterly fluctuations

In response to changes in customers' manufacturing capital software spending patterns, we undertook a restructuring program in October 1998 that would, among other things, more closely align costs with sales expectations. This program was continued in fiscal year 2000 with an additional charge of $1.2 million, representing $0.9 million in employee reduction costs and $0.3 of facility consolidation costs recorded in the second quarter. There can be no assurance that these changes will alleviate the quarterly or other fluctuations in our financial results.

Our products involve a very long sales cycle and the timing of sales is difficult to predict

Because the license 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 four to 15 months), varies from customer to customer and is subject to a number of significant risks over which the Company has little or no control. These risks include customers' budgetary constraints, timing of budget cycle, concerns about the introduction of new products by us or our competitors and general economic downturns which 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. Since the launch of QAD Global Services in late 1998, 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 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.

Our product mix is changing but is still weighted in favor of software licensing

We have historically derived substantially all of our revenue from the licensing and maintenance of MFG/PRO software and third party software. In the fiscal years 1998 and 1999, this revenue equaled approximately 91 percent and 89 percent, respectively, of our total revenue. As a result of our acquisition of distributors in fiscal 1999, as well as the launch of QAD Global Services in the latter part of that fiscal year, we expect that revenue from services will increase from approximately six percent of revenue to 20 to 25 percent of total revenue. In addition, if we are successful in releasing the remainder of our planned QAD Supply Chain Optimizer and QAD eQ software components, we anticipate that the demand for service revenue will increase accordingly.

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 a adverse effect on our business, operating results and financial condition. MFG/PRO software employs Progress programming interfaces which allow MFG/PRO software to operate with Oracle Corporation database software. However, our software programs do 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 Supply Chain Optimizer and QAD eQ software products are not dependant on Progress technology. The commercially available QAD Supply Chain Optimizer APS products are primarily based upon products from Paragon Management Systems, Inc. The QAD eQ software, which is currently in beta testing, 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 and 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 to failure of these third-party software providers to develop and support their software could have an adverse effect on us.

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 takes steps to avoid interruptions of sales due to the pending availability of new products, customers may delay their purchasing

decisions in anticipation of the general availability of new or enhanced QAD software, which could have a adverse effect on our business, operating results and financial condition. The actual or anticipated introduction of new products, technologies and industry standards can also render existing products obsolete or unmarketable or result in delays in the purchase of such products. As a result, the life cycles of 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.

Our supply chain solutions are still under development

A significant element of our strategy is our development of QAD Supply Chain Optimizer software and QAD eQ software, a series of new products targeted at the supply chain management 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 which may be included as part of or encapsulated within QAD Supply Chain Optimizer software and QAD eQ software. Our first QAD Supply Chain Optimizer software product, APS, 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, and we have commenced beta testing. However, we can not ensure that the QAD Supply Chain Optimizer 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 Supply Chain Optimizer 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

On December 16, 1999, we acquired Enterprise Engines, Inc. of San Mateo, California pursuant to a stock purchase agreement. Prior to the acquisition we had been working jointly with Enterprise Engines, Inc. to develop QAD eQ software. 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.

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 the current version of MFG/PRO 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 new supply chain management software on a timely basis, if at all, or that if developed this software will achieve market acceptance.

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 four primary vertical industry segments: electronics/industrial, consumer products, medical and automotive. 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 for our software products in one or more of these segments could have a adverse effect on us. If any of the industry segments targeted by our experiences a material downturn in

expansion or in prospects for future growth, such downturn would adversely affect the demand for our products and will adversely affect us.

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 individual 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 in the past experienced difficulty in recruiting qualified personnel. There can be no assurance that we will retain our key technical and managerial employees or that we will 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 could have a adverse effect on our business, operating results and financial condition.

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 other planned expenses in sales and marketing will ultimately prove to be successful or that the incremental revenue generated will exceed the significant incremental costs associated with these efforts. In addition, there can be no assurance that our sales and marketing organization will be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of our current and potential competitors. If we are unable to develop and manage our sales and marketing force expansion effectively, our business, operating results and financial condition 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 in order to expand the distribution of our products. There can be no assurance that current or future distributors will provide the level and quality of expertise and service required to successfully license QAD software products, that we will be able to maintain effective, long-term relationships with distributors, or that selected distributors will continue to meet our sales needs. Further, there can be no assurance that these distributors 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. This may become more likely as we compete with some of our distributors through our own acquisition of distributors. Any failure to maintain successfully 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 such support for competitive products, we could be materially and adversely affected.

We are faced with very intense competition in all segments of our target markets with companies with significant resources

The ERP 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. We compete in the ERP software market primarily on the basis of functionality, ease of use

and implementation, technology (including connectivity and adaptability), time to benefit, supplier viability, service and cost. We intend to continue to acquire, develop and allocate our resources to focus on these targeted competitive areas, as well as to identify additional or different areas where we perceive competitive advantage.

We currently compete primarily 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;
- smaller independent companies that have developed or are attempting to develop advanced planning and scheduling software which complement or compete with ERP or supply chain solutions;
- internal development efforts by corporate information technology departments; and
- companies offering standardized or customized products on mainframe and/or mid-range computer systems.

We expect that competition for MFG/PRO software will increase as other large companies like Oracle and SAP, as well as other business application software vendors, enter the market for plant and operations-level ERP solutions. We may also face market resistance from potential customers with installed legacy systems because of the reluctance of these potential customers to commit the time, effort and resources necessary to convert to an open systems ERP solution or because of their own internal attempts to address Y2K issues.

With our strategic entry into the supply chain management software market, we expect to meet substantial additional competition from companies presently serving that market, including i2, IMI and Manugistics. We also expect competition to come from broad-based solution providers like Baan, Oracle, PeopleSoft and SAP who state they are increasingly focusing on this segment. In addition, some of our competitors, such as Baan, Oracle, PeopleSoft and SAP, have well-established relationships with our current or potential customers. Further, as the supply chain management 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 our partners or potential partners.

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. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products. 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.

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 systems 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.

Beginning in the fourth quarter of fiscal 1999, we created QAD Global Services 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 customer's 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 systems integration and implementation services in connection with QAD software products include Arthur

Andersen, Deloitte & Touche, Ernst & Young, Origin Technology, Sligos and STCS Systems. In most cases distributors also will deliver consulting and systems integration services. 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 contain strict confidentiality and non-disclosure provisions for the service provider, end user and third-party developer and 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.

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 such parameters 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. Payment terms are generally 30 days from the date of shipment. We have no patents or pending patent applications.

In order 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 certain 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 third-party 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 infringes 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 such 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. This could materially and adversely affect us.

Our operations are international in scope, which exposes us to additional risk, including currency related risk

We derived approximately 39 percent and 48 percent of our total revenue from sales outside the United States in the fiscal years 1998 and 1999, respectively. Based upon the acquisitions completed during fiscal 1999 and fiscal 2000, we expect the percentage of business of outside the United States to continue to increase. Of our more than 4,000 licensed sites in more than 80 countries as of January 31, 1999, over 70 percent are outside the United States.

Historically, our revenue from international operations has primarily been denominated in United States dollars. We have historically priced our products in United States dollars and over 90 percent of our sales in the fiscal years 1998 and 1999, were denominated in United States dollars, with the remainder in approximately ten different currencies. We expect that a growing percentage of our business will be conducted in currencies other than the United States dollar. 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. While we may in the future change our pricing practices, an increase in the value of the United States dollar relative to foreign currencies could make QAD software products more expensive and,

therefore, less competitive in other markets. Fluctuations in currencies relative to the United States dollar will affect period-to-period comparisons of our reported results of operations. In the fiscal years 1998 and 1999, foreign currency transaction (gains) and losses totaled $(879,000) and $61,000, respectively. Due to the constantly changing currency exposures and the volatility of currency exchange rates, there can be no assurance that we will not experience currency losses in the future, nor can we 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.

Our principal stockholders may control our management decisions

Pamela and Karl Lopker jointly beneficially own approximately 55% of our outstanding common stock. Recovery Equity Investors II, L.P. owns approximately 8% of our outstanding common stock. Current directors and executive officers as a group own approximately 66% of the common stock. The Lopkers currently constitute two of the six members of board and therefore have significant influence in directing the actions of the board of directors.

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 certain jurisdictions. Although we have not experienced any product liability claims to date, there can be no assurance that we will not be subject to claims in the future. We have an errors and omissions insurance policy with a sublimit for Y2K related claims. However, there can be no assurance that this insurance will 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.

Year 2000 compliance

Our business operations are significantly dependent upon the same proprietary software products we license to customers. Our management believes we have successfully addressed Y2K readiness in our proprietary software products and does not anticipate any business interruptions associated with these applications. However, uncertainty 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 to be ready for the Year 2000, there can be no assurance that our software products contain all necessary date code changes. Furthermore, 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. Additionally, third party software, computer and other equipment used internally may adversely impact us if it is not Y2K compliant.

SELLING SHAREHOLDERS

The following table sets forth information with respect to the number of shares beneficially owned by each of the Selling Shareholders, the number of shares that may be offered hereby by each Selling Shareholder and the number of shares of common stock to be owned after the offering, assuming all the shares offered are sold to persons not affiliated with the Selling Shareholders. None of the Selling Shareholders, has, or in the past has had, any other position, office or relationship with QAD (other than as a security holder) or any of its affiliates. As of January 31, 2000, there were 33,007,085 shares of our common stock issued and outstanding.

The shares set forth below as beneficially owned and offered by David A. Taylor represent shares issued in connection with the Stock Purchase Agreement entered into with David A. Taylor in December 1999.

	Shares Beneficially Owned Prior to Offering		Number of Shares Offered	Shares Beneficially Owned After Offering	
Name	Shares Owned	Percent		Number	Percent
David A. Taylor	120,000	0.36%	120,000	0	0.00%

PLAN OF DISTRIBUTION

The shares may be sold from time to time by the Selling Shareholders or their pledgees or donees. See "Selling Shareholders." Those sales may be made on the Nasdaq or in negotiated transactions, at prices and on terms then prevailing or at prices related to the then current market price or at negotiated prices. The methods by which the shares may be sold may include, but are not limited to, the following:

- Block trades in which the broker or dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- Purchases by a broker or dealer as principal and resale by the broker or dealer for its account;
- Ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- Privately negotiated transactions;
- Short sales; and

- A combination of any these methods of sale.

In effecting sales, brokers or dealers engaged by the Selling Shareholders may receive commissions or discounts from the Selling Shareholders or from the purchasers in amounts to be negotiated immediately prior to the sale.

QAD has agreed to maintain the effectiveness of the registration of the shares offered by this prospectus until the earlier of the date upon which all of the shares have been sold without restriction on resale, or the date on which the shares offered by this prospectus, in the opinion of counsel, may be immediately sold by the Selling Shareholders without registration or restriction on resale, including pursuant to Rule 144 under the Securities Act. We cannot ensure that the Selling Shareholders will sell any or all of the shares offered by this prospectus.

QAD is bearing all of the costs relating to the registration of the shares. Any commissions, discounts or other fees payable to a broker, dealer, underwriter, agent or market maker in connection with the sale of any of the shares will be borne by the Selling Shareholders. We will not receive any of the proceeds from this offering.

Pursuant to the registration rights granted to the Selling Shareholders, we have agreed to indemnify those Selling Shareholders, any person who controls those Selling Shareholders, and any underwriters for those Selling Shareholders, against specified liabilities and expenses arising out of or based upon the information set forth or incorporated by reference in this prospectus, and the registration statement of which this prospectus is a part, including liabilities under the Securities Act and the Exchange Act. The Selling Shareholders and any brokers participating in the sales of the shares may be deemed to be underwriters within the meaning of the Securities Act. Any commissions paid or any discounts or concessions allowed to any broker, dealer, underwriter, agent or market maker and, if any broker, dealer, underwriter, agent or market maker purchases any of the shares as principal, any profits received on the resale of those shares, may be deemed to be underwriting commissions or discounts under the Securities Act.

LEGAL MATTERS

The validity of the issuance of the shares of common stock offered by this prospectus has been passed upon for QAD by Nida & Maloney, LLP, Santa Barbara, California.

EXPERTS

Our consolidated financial statements as of January 31, 1999 and 1998, and for each of the years in the three-year period ended January 31, 1999, and all related schedules, have been incorporated by reference in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference, and upon the authority of said firm as experts in accounting and auditing.

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NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, THAT INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY QAD, THE UNDERWRITERS OR ANY OTHER PERSON. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES BY ANYONE IN ANY JURISDICTION IN WHICH AN OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING THE OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS SHALL UNDER ANY CIRCUMSTANCES CREATE AN IMPLICATION THAT INFORMATION CONTAINED IN THIS PROSPECTUS IS CORRECT AS ANY TIME SUBSEQUENT TO ITS DATE.

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120,000 Shares

QAD Inc.

Common Stock

_____

P R O S P E C T U S

_____

February ___, 2000

PART II.
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 14. Other expenses of issuance and distribution.

The following table sets forth the estimated expenses to be incurred in connection with the issuance and distribution of the securities being registered hereby:

SEC registration fee	$ 286
Nasdaq National Market listing fee	2,400
Accounting fees and expenses	5,000
Legal fees and expenses	10,000
Printing expenses	2,500
Miscellaneous	2,814
TOTAL	$ 23,000

Item 15. Indemnification of directors and officers.

Section 102(b)(7) of the Delaware General Corporation Law (the "Delaware Law") permits a corporation to provide in its certificate of incorporation that directors of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for payments of unlawful dividends or unlawful stock repurchases or redemptions, or (iv) for any transaction from which the director derived an improper personal benefit. Our Certificate of Incorporation contains such a provision.

Section 145 of the Delaware Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement in connection with specified actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation a "derivative action"), if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses (including attorneys' fees) incurred in connection with defense or settlement of such action, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. Under Section 145, a corporation shall indemnify an agent of the corporation for expenses actually and reasonably incurred if and to the extent such person was successful on the merits in a proceeding or in defense of any claim, issue or matter therein.

Section 145 of the Delaware Law provides that it is not exclusive of other indemnification that may be granted by a corporation's charter, bylaws, disinterested director vote, shareholder vote, agreement or otherwise. The limitation of liability contained in the Registrant's Certificate of Incorporation and the indemnification provision included in the Registrant's Bylaws are consistent with Delaware Law Sections 102(b)(7) and 145. The Registrant has also entered into separate indemnification agreements with its directors and officers that could require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors and officers and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, including liabilities that may arise under the Securities Act of 1933. In addition, we have purchased directors and officers insurance.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Registrant pursuant to such provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in such Act and is therefore unenforceable.

Item 16. Exhibits.

See Index to Exhibits at page II-6.

Item 17. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(2) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person

in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Carpinteria, State of California, on February 2, 2000.

QAD Inc.

By: /s/ Karl F. Lopker

Karl F. Lopker
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below hereby constitutes and appoints Karl F. Lopker and Roland B. Desilets, or either of them, his or her attorneys-in-fact and agents, each with full power of substitution for him or her and in his or her name, place and stead, in any and

all capacities, to sign any or all amendments to this Registration Statement and any registration statements for the same offering effective upon filing pursuant to Rule 462(b), and to file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each of said attorneys-in-fact and agents full power and authority to do so and perform each and every act and thing requisite and necessary to be done in connection with such registration statements, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that either of said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

Name	Title	Date
/s/ Pamela M. Lopker Pamela M. Lopker	Chairman of the Board and President (Principal Executive Officer) and Director	February 2, 2000
/s/ Karl F. Lopker Karl F. Lopker	Director and Chief Executive Officer	February 2, 2000
/s/ A. J. Moyer A.J. Moyer	Chief Financial Officer (Principal Financial Officer)	February 2, 2000
/s/ Cheryl S. Slomann Cheryl S. Slomann	Controller; Principal Accounting Officer	February 2, 2000
/s/ Evan Bishop Evan M. Bishop	Director	February 2, 2000
/s/ Koh Boon Hwee Koh Boon Hwee	Director	February 2, 2000

/s/ Peter von Cuylenburg Peter von Cuylenburg	Director	February 2, 2000
/s/ Jeffrey Lipkin Jeffrey Lipkin	Director	February 2, 2000

INDEX TO EXHIBITS

Exhibit Number	Description
5.1	Opinion of Nida & Maloney, LLP
10.1	Stock Purchase Agreement dated December 15, 1999 between the Registrant and David A. Taylor
10.2	Promissory Note dated December 15, 1999 between the Registrant and David A. Taylor
10.3	Escrow Agreement dated December 15, 1999 between the Registrant and David A. Taylor
10.4	Consulting Agreement dated December 15, 1999 between the Registrant and David A. Taylor
10.5	Release dated December 15, 1999 between the Registrant and David A. Taylor
10.6	Non-competition Agreement dated December 15, 1999 between the Registrant and David A. Taylor
23.1	Consent of KPMG LLP
23.2	Consent of Nida & Maloney, LLP (included in Exhibit 5.1)
24	Power of Attorney (set forth on page II-4)

NIDA & MALONEY, LLP
800 Anacapa Street
Santa Barbara, CA 93101
Telephone: (805) 568-1151
Facsimile: (805) 568-1955

February 2, 2000

QAD Inc.
6450 Via Real
Carpinteria, CA 93013

Re: Registration Statement on Form S-3

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-3 proposed to be filed by you with the Securities and Exchange Commission (the "Commission") on or about February 2, 2000 (as such may be amended or supplemented, the "Registration Statement"), in connection with the registration under the Securities Act of 1933, as amended (the "Act"), of up to 120,000 shares of your Common Stock (the "Shares"). The Shares are to be sold by the Selling Shareholders as described in such Registration Statement. All of the Shares being sold were or will be sold by QAD to the Selling Shareholders and will be sold by the Selling Shareholders to the public. As counsel in connection with this transaction, we have examined the proceedings proposed to be taken by you in connection with the issuance and sale of the shares.

Based on the foregoing, it is our opinion that the registration and issuance of the Shares has been duly authorized and that the Shares that have been issued are legally and validly issued, fully paid and non-assessable.

We consent to the use of this opinion as an exhibit to the Registration Statement and further consent to the use of our name wherever appearing in the Registration Statement, including the prospectus constituting a part thereof, which has been approved by us, as such may be further amended or supplemented, or incorporated by reference in any Registration Statement relating to the prospectus filed pursuant to Rule 462(b) of the Act.

We hereby consent to the inclusion of our opinion as Exhibit 5.1 to the Registration Statement and further consent to the reference to this firm in the Registration Statement. In giving this consent, we do not admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Commission thereunder.

Very truly yours,

NIDA & MALONEY, LLP

/s/ Nida & Maloney, LLP

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: /s/ A.J. Moyer

Albert J. Moyer,
Chief Financial Officer

SELLER:

/s/ David A. Taylor

David A. Taylor

COMPANY:

ENTERPRISE ENGINES, INC.

By: /s/ David A. Taylor

David A. Taylor,
President

CONSENT OF SPOUSE

I consent to and join in the foregoing.

Date: December 15, 1999

/s/ Nina J. Hamberg

MRS. NINA J. HAMBERG

[EXHIBITS OMITTED]

UNSECURED PROMISSORY NOTE

$500,000 December 15, 1999
Santa Barbara, CA

The undersigned, QAD Inc. (the "Maker"), promises to pay to DAVID A. TAYLOR (the "Holder"), or order, at such address as the Holder designates, the principal sum of FIVE HUNDRED THOUSAND DOLLARS ($500,000), together with interest as described below, in four (4) equal quarterly installments of principal and interest as follows:

Date	Payment	Interest	Total
March 15, 2000	$125,000	$10,000	$135,000
June 15, 2000	$125,000	$7,500	$132,500
September 15, 2000	$125,000	$5,000	$130,000
December 15, 2000	$125,000	$2,500	$127,500
Total:	$500,000	$25,000	$525,000

1. PAYMENTS AND INTEREST.

1.1 Interest and Payments. The Maker shall pay interest on this Note to the Holder on the amount outstanding hereunder on each quarterly payment as set forth above. All payments under this Note shall be made in lawful currency of the United States of America at 4008 Bayview Avenue, San Mateo, California 94403.

1.2 Interest Rate. This Note shall bear interest at Eight Percent (8%) per annum.

2. DEFAULT AND ACCELERATION. Upon failure to pay any principal or interest or any other amount described hereunder when due or to perform when due any obligation, covenant or agreement in this Note, then all principal and accrued interest will become immediately due and payable, at the Holder's option. The Holder may exercise this option to accelerate during any default by the Maker regardless of any forbearance.

3. PREPAYMENT. This Note may be prepaid at any time without penalty or fee.

4. ASSUMPTION. This Note may be assumed only after a default by Maker of any of Maker's payment obligations hereunder.

5. ATTORNEYS' FEES. The Maker agrees to pay the following costs, expenses, and attorneys' fees paid or incurred by the Holder, or adjudged by a court: (i) reasonable costs of collection, costs, and expenses, and attorneys' fees paid or incurred in connection with the collection or enforcement of this Note, whether or not suit is filed; and (ii) costs of suit and such sum as the court may adjudge as attorneys' fees in any action to enforce payment of this Note or any part of it.

6. SEVERABILITY. If any provision of this Note is invalid by operation of any law or interpretation placed thereon by any court, this Note shall be construed as not containing such provision and all other provisions of this Note which are otherwise lawful shall remain in full force and effect, and to this end the provisions of this Note are declared to be severable.

7. GOVERNING LAW. This Note shall be governed by and construed in accordance with the laws of the State of California as those laws are applied to written contracts between residents of such jurisdiction to be performed within such jurisdiction.

8. NO ASSIGNMENT. The Holder may sell, assign, or otherwise transfer, either in part or in its entirety, this Note only after a default by Maker of any of Maker's payment obligations hereunder.

9. FORBEARANCE NOT A WAIVER. No delay or omission on the part of the Holder in exercising any rights under this Note, on default by the Maker, shall operate as a waiver of such right or of any other right under this Note or other agreements, for the same default or any other default. The Maker and any sureties or guarantors of this Note consent to all extensions without notice for any period or periods of time and to the acceptance of partial payments before

or after maturity, and to the acceptance, release and substitution of security, all without prejudice to the Holder. The Holder shall similarly have the right to deal in any way, at any time, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time for payment of any of the indebtedness, or to grant any other indulgences or forbearances whatsoever, without notice to any other party and without in any way affecting the personal liability of any such party.

10. MANNER OF NOTIFICATION. Any notice to the Maker provided for in this Note shall be given by personal delivery or by mailing such notice by first class or certified mail, return receipt requested, addressed to the Maker at the property address stated above, or to such other address as the Maker may designate by written notice to the Holder. Any notice to the Holder shall be given by personal delivery or by mailing such notice by first class or certified mail, return receipt requested, to the Holder at the address stated in the first paragraph of this Note, or at such other address as may have been designated by written notice to the Maker. Mailed notices shall be deemed delivered and received three (3) days after deposit in accordance with this provision in the United States mails.

11. TIME. Time is of the essence for each and every obligation under this Note.

MAKER:

QAD Inc.

By:/s/ A.J. Moyer

Name: Albert J. Moyer
Title: Chief Financial Officer

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the "Escrow Agreement"), dated as of December 15, 1999 is among QAD INC., a Delaware corporation ("QAD"), DAVID A. TAYLOR ("Taylor") and SANTA BARBARA BANK & TRUST as the Escrow Agent (the "Escrow Agent").

WHEREAS:

A. Contemporaneous with the execution and delivery of this Escrow Agreement, QAD is acquiring all of the outstanding Common Stock of ENTERPRISE ENGINES, INC. ("EEI") in accordance with the Stock Purchase Agreement among QAD, EEI and Taylor dated December 15, 1999 (the "Purchase Agreement"). Capitalized terms not defined herein shall have the meaning ascribed in the Purchase Agreement; and

B. The Purchase Agreement provides for the delivery into escrow of One Hundred Twenty Thousand (120,000) shares of QAD's Common Stock (the "Stock").

NOW, THEREFORE, QAD and the Escrow Agent hereby agree as follows:

1. APPOINTMENT OF ESCROW AGENT; DEPOSIT OF STOCK. QAD and Taylor hereby constitute and appoint the Escrow Agent as, and the Escrow Agent hereby agrees to assume and perform the duties of, the escrow agent under and pursuant to this Escrow Agreement. The Escrow Agent acknowledges receipt of the Stock as evidenced by __ (__) certificates in the name of Taylor representing the shares of Stock.

2. STOCK. The Stock is to be held by the Escrow Agent in trust and delivered to Taylor or QAD depending upon whether the Milestones set forth in Exhibit A hereto have or have not been met.

3. RELEASE OF STOCK. The Escrow Agent is authorized to release the Stock when it has received from Taylor a written statement that a specific Milestone set forth in Exhibit A to the Purchase Agreement has been reached. Upon receipt of the notice by Taylor, in the form attached hereto as Exhibit B, the Escrow Agent will forward to QAD such notice, as provided in Paragraph 8, and QAD shall have ten (10) business days from receipt to accept or reject the notice by written notice to the Escrow Agent. Unless QAD accepts or rejects the notice as set forth in the immediately preceding sentence within such ten business (10) day period, the Escrow Agent shall release to Taylor the portion of the Stock subject to the notice and such action shall be conclusive and binding on all parties hereto. If the parties are unable to agree on the achievement of one or more of the Milestones, then the parties will resolve the matter by arbitration as provided in the Purchase Agreement. Except as set forth above, the Escrow Agent can only deliver Stock to Taylor if it has received the written approval of QAD, unless the matter has been resolved by arbitration and a certified copy of the arbitrator's decision has been tendered to the Escrow Agent. If all Stock is not released by January 31, 2001, the Escrow Agent will return the Stock to QAD and this Escrow will terminate.

4. DUTIES AND OBLIGATIONS OF ESCROW AGENT. The duties and obligations of the Escrow Agent shall be limited to, and determined solely by, the provisions of this Escrow Agreement, and the Escrow Agent is not charged with knowledge of or any duties or responsibilities in respect of any other agreement or document. In furtherance and not in limitation of the foregoing:

(i) the Escrow Agent shall be fully protected in relying in good faith upon any written certification, notice, direction, request, waiver, consent, receipt or other document that the Escrow Agent reasonably believes to be genuine and duly authorized, executed and delivered;

(ii) the Escrow Agent shall not be liable for any error of judgment, or for any act done or omitted by it, or for any mistake in fact or law, or for anything that it may do or refrain from doing in connection herewith in good faith and with such care, including reasonable inquiry, as an ordinarily prudent person in like position would use under similar circumstances; provided, however, that, notwithstanding any other provision of this Escrow Agreement, the Escrow Agent shall be liable for its breach of this Escrow Agreement;

(iii) the Escrow Agent may seek the advice of legal counsel,

selected with reasonable care and given full information as to the context in which an issue arises, in the event of any dispute or question as to the construction of any of the provisions of this Escrow Agreement or its duties hereunder, and it shall incur no liability and shall be fully protected in respect of any action taken, omitted or suffered by it in good faith in accordance with the opinion of such counsel;

(iv) in the event that the Escrow Agent shall in any instance, after seeking the advice of legal counsel pursuant to the immediately preceding clause, in good faith be uncertain as to its duties or rights hereunder, it shall be entitled to refrain from taking any action in that instance and its sole obligation, in addition to those of its duties hereunder as to which there is no such uncertainty, shall be to keep safely the Stock until it shall be directed otherwise in writing by QAD and Taylor in the event that the Escrow Agent has not received such written direction or court order within sixty (60) calendar days after requesting the same, it shall have the right to interplead QAD and Taylor in any court of competent jurisdiction and request that such court determine its rights and duties hereunder;

(v) the Escrow Agent may execute any of its powers or responsibilities hereunder and exercise any rights hereunder either directly or by or through agents or attorneys selected with reasonable care, nothing in this Escrow Agreement shall be deemed to impose upon the Escrow Agent any duty to qualify to do business or to act as fiduciary or otherwise in any jurisdiction other than the State of California and the Escrow Agent shall not be responsible for and shall not be under a duty to examine into or pass upon the validity, binding effect, execution or sufficiency of this Escrow Agreement or of any agreement amendatory or supplemental hereto; and

(vi) the general provisions of the Escrow Agent are attached hereto as Exhibit C.

5. COOPERATION. QAD and Taylor shall provide to the Escrow Agent all instruments and documents within their respective powers necessary for the Escrow Agent to perform its duties and responsibilities hereunder.

6. INDEMNITY; EXPENSES. QAD and Taylor shall jointly and severally indemnify the Escrow Agent against and hold the Escrow Agent harmless from any costs, damages, judgments, attorney's fees, expenses, obligations and liabilities of any kind or nature that may be suffered or incurred by the Escrow Agent as a result of, in connection with, or arising from or out of the acts or omissions of the Escrow Agent in the operation, administration, enforcement or performance of or pursuant to this Escrow Agreement in accordance with the standards of care applicable under this Escrow Agreement; provided, however, that neither QAD nor Taylor shall be obligated to indemnify the Escrow Agent for any costs, damages, judgments, attorney's fees, expenses, obligations or liabilities caused by the negligence or willful misconduct of the Escrow Agent or caused by the breach of this Escrow Agreement by the Escrow Agent. If any controversy arises between QAD and Taylor or with any third person with respect to the subject matter of this Escrow Agreement or its terms or conditions, the Escrow Agent shall not be required to determine the same or take any action thereupon, but may await the settlement of any such controversy. In such event, the Escrow Agent shall not be liable for interest or damages.

7. RESIGNATION AND REMOVAL OF ESCROW AGENT.

(a) The Escrow Agent may resign as escrow agent under this Escrow Agreement by delivering written notice thereof to QAD and Taylor at least thirty (30) calendar days prior to the stated effective date thereof. In addition, the Escrow Agent may be removed and replaced on a date designated in a written instrument signed by QAD and Taylor and delivered to the Escrow Agent. Notwithstanding the foregoing, no such resignation or removal shall be effective until a successor escrow agent has acknowledged its appointment as such as provided in paragraph (c) below. In either event, upon the effective date of such resignation or removal, the Escrow Agent shall deliver the Stock (or any remaining portion thereof) to such successor escrow agent, together with such records maintained by the Escrow

Agent in connection with its duties hereunder and other information with respect to the Escrow Fund as such successor may reasonably request.

(b) If a successor escrow agent shall not have acknowledged its appointment as such as provided in paragraph (c) below, in the case of a resignation, prior to the expiration of thirty (30) calendar days following the date of a notice of resignation or, in the case of a removal, on the date designated for the Escrow Agent's removal, as the case may be, because QAD and Taylor are unable to determine an appropriate successor escrow agent, or for any other reason, the Escrow Agent may select a successor escrow agent and any such resulting appointment shall be binding upon all

of the parties to and beneficiaries of this Escrow Agreement, provided that any such successor selected by the Escrow Agent shall be a Bank.

(c) Upon written acknowledgment by a successor escrow agent appointed in accordance with the foregoing provisions of this Section 7 of its agreement to serve as escrow agent hereunder and the receipt of the property then comprising the Escrow Fund, the Escrow Agent shall be fully released and relieved of all duties, responsibilities and obligations under this Escrow Agreement, subject to the proviso contained in clause (ii) of Section 4 hereof, and such successor escrow agent shall for all purposes hereof be the Escrow Agent.

8. NOTICES. All notices permitted or required by this Escrow Agreement shall be in writing and shall be deemed to be delivered and received (a) when personally delivered, (b) on the third (3rd) business day after the date on which deposited in the United States Mail, postage prepaid, certified or registered mail, return receipt requested, (c) on the date on which transmitted by facsimile or other electronic means generating a receipt evidencing a successful transmission or (d) on the next business day after the date on which deposited with a regulated public carrier of recognized national standing (e.g., Federal Express), carriage prepaid, for overnight delivery, addressed to the party for whom intended at the address or facsimile set forth below, or such other address, facsimile or electronic transmission address, notice of which is provided in a manner permitted by this Section 10 (provided, however, that, notwithstanding the foregoing, a copy each such notice shall be provided to each party by facsimile concurrently with delivery by any other means):

If to QAD, to:	QAD Inc. 6450 Via Real Carpinteria, California 93013 Attention: General Counsel Facsimile: 805-566-6080
If to Taylor, to:	David A. Taylor 4008 Bayview Avenue San Mateo, California 94403 Facsimile: none
with a copy to:	Heller Ehrman White and McAuliffe 525 University Avenue Palo Alto, California 94301 Attn: Sarah A. O'Dowd Facsimile: (650) 324-0638

If to the Escrow Agent, to:	Santa Barbara Bank & Trust _____ _____ Attn:_____ Facsimile:_____

Any notice or communication directed to Subscribers shall be made in the manner

provided for communications to the Holders hereunder.

9. AMENDMENTS, ETC. This Escrow Agreement may only be amended or modified by a written agreement signed by the parties hereto. No waiver by any party of any term or condition contained of this Escrow 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 Escrow Agreement on any future occasion.

10. GOVERNING LAW. THIS ESCROW AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF CALIFORNIA.

11. MISCELLANEOUS. This Escrow Agreement is binding upon and will inure to the benefit of the parties hereto and their respective successors and permitted assigns. The headings used in this Escrow Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof. This Escrow 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.

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed as of the date first above written.

QAD:

QAD Inc.,
a Delaware corporation

By:/s/ A.J. Moyer

Name: Albert J. Moyer
Title: Chief Financial Officer

TAYLOR:

/s/ David A. Taylor

DAVID A. TAYLOR

ESCROW AGENT:

SANTA BARBARA BANK & TRUST

By:

Name:
Title:

Exhibit A
to
Escrow Agreement

MILESTONES

Upon achieving each of the following six objectives (the completion of which shall be to the reasonable satisfaction of QAD), David Taylor will receive 20,000 shares of QAD stock as consideration for his Enterprise Engines shares. Where sub-objectives are specified, the indicated number of shares will be awarded as each sub-objective is achieved.

1. Shipping AT&T

* Delivery of AT&T Wireless functionality by 12/15/99 (20,000)

Delivery requires sign-off from AT&T that eQ was delivered with promised functionality, as described in the attachment, and that eQ works to specification at AT&T Wireless, except, however, that the functionality described as "Send production order to MFG/PRO" will not be considered in determining whether this objective has been met.

2. eQ Marketing

* eQ Vision presentation (3,000)

Completion by January 31, 2000 of a PowerPoint vision presentation with a presenter's script for the eQ product line for collaborative applications.

* eQ Product presentation (2,000 ea.)

Completion by January 31, 2000 of a PowerPoint product presentation along with a presenter's script of eQ v2.

Completion by Q4 2000 (or per development schedule for eQ v3 Beta) of a PowerPoint product presentation along with a presenter's script of eQ v3.

* eQ Product Demonstration (1,800 ea.)

Completion by January 31, 2000 of a Demonstration script for eQ v2.

Completion by Q4 2000 (or per development schedule for eQ v3 Beta) of a demonstration script for eQ v3.

* eQ Product Brochure (1,800 ea.)

Completion by April 30, 2000 of an updated eQ Product Brochure for eQ v2 for conceptual images and text.

Completion by Q4 2000 (or per development schedule for eQ v3 Beta) of an updated eQ Product Brochure for eQ v3 for conceptual images and text.

* eQ Documentation (4,000 or 2,000 ea.)

Completion in accordance with development schedule for eQ Beta and GA deliverables of high-level product documentation for a manager's guide to eQ consisting of 30 to 40 pages. This can be used for training materials as well as excerpts for product brochures. This high level documentation or managers guide is for eQ v2 and eQ v3. Documentation is for eQ's functionality and technology.

* eQ General Sales Presentations and review of QAD Marketing Materials (1800 total with 150 Per month)

Completion of general sales presentations as required as well as review of QAD marketing materials for improvement.

3. IBM Partnership

* Benefits article (4,000 upon completion of article, 2,000 upon acceptance for publication of article)

Completion by September 30, 2000, and acceptance for publication, by December 31, 2000, of an article on the benefits of Internet order management using eQ and SF as an example.

* Collateral review (6,000)

Completion by June 30, 2000 of a promotional paper and review, with proposals for, other collateral materials produced by QAD for the promotion of eQ through IBM's channels.

* IBM Presentations (4,000)

Completion in accordance with Q1 through Q3 2000 launch plan roll-out of six presentations (which may be at IBM facilities duration and may be 1 to 2 days each) on the benefits of eQ and eQ developed on IBM's middle-ware products to IBM personnel, customers and business partners.

* IBM Road Show (4,000)

Completion in accordance with Q1 through Q3 2000 launch plan roll-out schedule of a 6 to 8 city international road show to promote eQ to IBM personnel, customers and business partners.

4. Industry and Security Analysts

* Analyst strategy (5,000)

Completion by April 30, 2000 of a strategic plan and supporting presentation for selling the vision and the reality of eQ to such industry analysts as AMR, Gartner, Forrester, Metagroup, and Yankee Group.

* Analysts white paper (5,000)

Completion by April 30, 2000 of an illustrated white paper of approximately 10-15 pages that communicates the key advantages of eQ to analysts.

* Positive Press (2,500 per write-up)

Publication by December 31, 2000 of two one-page write-ups of eQ by the industry analysts (2500 shares per write-up).

* Promotional Road Show (5,000)

Completion in accordance with Q1 through Q3 launch plan roll-out schedule of a 6 to 8 city promotional road show for Industry and Security Analysts.

5. Convergent Engineering Class

* Course update (8,000)

Completion by May 30, 2000 of an update to the CE 3 day course for eQ v2 and v3) to reflect current industry trends and to incorporate the advanced concepts used in eQ (roles, relationships, etc.) as well as any concepts from IBM SF.

* Train the Trainer (7,000)

Completion by September 30, 2000 of training of designated QAD personnel (4 to 5 personnel) on CE to be a certified CE trainer.

* Course presentations (5,000)

Completion between Q2 and Q4 2000 of teaching along with or providing assistance to QAD's trainer in connection with the updated course at five sessions (1000 shares per session).

6. Gartner

Placement by Gartner of QAD in the "4th" quadrant of either its large-company ERP matrix or its new collaborative matrix. (20,000)

Exhibit B
to
Escrow Agreement

The undersigned hereby declares, under penalty of perjury, that the following Milestone has been achieved:

Date Achieved	Milestone Description	Number of Shares	Basis for Achievement

Executed at San Mateo, California.

Date:_____ _____
DAVID A. TAYLOR

Exhibit C to Escrow Agreement
General Provisions

CONSULTING AGREEMENT

THIS CONSULTING AGREEMENT (the "Agreement") is between DAVID A. TAYLOR (the "Consultant") and QAD Inc., a Delaware corporation (the "Company").

BACKGROUND

A. The Consultant has the background, technical expertise, and experience to assist the Company, and is offering his services as a consultant to the Company on an as needed basis;

B. The Company desires to retain the Consultant as an independent consultant; and

C. The parties hereto wish to memorialize the Consultant's consulting work for the Company by entering into this written Agreement.

AGREEMENT

Intending to be legally bound, the parties hereto agree as follows:

1. DUTIES. The Company hereby retains the Consultant as a consultant to the Company. It is understood and agreed, and it is the intention of the parties to this Agreement, that the Consultant is an independent contractor, and not the employee or agent of the Company for any purpose whatsoever.

2. INDEPENDENCE. The Company and the Consultant conduct their own businesses each for its or his own account and risk. Neither party shall have the power or authority to act on behalf of or incur any liability for the account of the other party save to the extent that the same is required in the normal course of the completion of a project. Each party hereto hereby indemnifies and holds the other harmless from any claims resulting from a breach of this Paragraph 2.

3. SERVICES. The Consultant will perform tasks for the Company solely as requested by the Company and agrees to make himself available for approximately twenty (20) hours of service per week, at such times as his schedule allows. The Consultant will be paid a fee of ONE HUNDRED THOUSAND DOLLARS ($100,000), payable in twelve (12) equal monthly installments, commencing on December 16, 1999. The Consultant will present an accounting of hours spent on the Company's business, along with any reimbursable expenses and receipts for said expenses, to the Company on a monthly basis.

In performing services under this Agreement, the Consultant, except as otherwise provided, shall be responsible for paying all costs and expenses

incidental to the performance of such services, except for reasonable travel expenses and lodging accommodations based upon the Company's employee travel policies, a copy of which will be provided, and which have been authorized in advance by the Company.

4. BUSINESS DISCLOSURES. The Consultant agrees that during the term of this Agreement, or thereafter, he will not disclose, other than to an employee or director of the Company, any confidential information as to the Company, including any information relating to the Company's business, customers, trade or industrial practices or trade secrets or know-how, without prior consent by the Company, and that at the termination of this Agreement, and thereafter, for any reason, the Consultant shall not remove or retain, without the Company's express written consent, any hardware, software, calculations or letters, papers, drawings, blueprints or other confidential information of any type or description related to the Company.

The Consultant retains the rights to book copyrights and royalties on existing books, plus rights to the Convergent Engineering trademark, intellectual property and certification process. The Company is to receive a royalty-free license to use said intellectual property.

5. DEVELOPMENT OF INVENTIONS AND IMPROVEMENTS.

5.1 Notice. The Consultant agrees to keep the Company informed of any inventions, discoveries, improvements, trade secrets and secret processes made by him, in whole or in part, or conceived by the Consultant alone, or with others, which result from any work which the Consultant may do for, or at the request of, the Company.

5.2 Company Property. Such inventions, discoveries, improvements, trade secrets and secret processes shall be the property of the Company, or its nominees, whether patented or not, and the Consultant shall, without charge to the Company, assign to the Company all right, title and interest in such inventions, discoveries, improvements, trade secrets and secret processes, and shall execute, acknowledge and deliver any instruments confirming the complete ownership by the Company of such inventions, discoveries, improvements, trade secrets and secret processes.

5.3 Confidentiality. The Consultant shall not, at any time, except as required in the conduct of the business of the Company, or except as authorized in writing by the Company, publish, disclose or authorize anyone else to publish or disclose any secret or confidential matters relating to any aspect of the business of the Company, with which the Consultant's services in any way may acquaint the Consultant.

6. TERMINATION. The Company may terminate this Agreement should the Consultant die, become disabled and be unable to perform his obligations hereunder, or should the Consultant breach the terms of this Agreement, and

should the Consultant not cure the breach within thirty (30) days of the Company's notice of the Consultant's breach of this Agreement. The Consultant may terminate this Agreement on thirty (30) days? written notice to the Company.

7. REMEDIES. It is agreed that in the event of any breach, violation or evasion of terms of this Agreement, such breach, violation or evasion will result in immediate and irreparable injury and harm to the Company and will authorize recourse by the Company to the remedies of injunction and specific performance or either of such remedies, as well as to all legal or equitable remedies to which the Company may be entitled.

8. GOVERNING LAW. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and governed by the laws of the State of California then in effect.

9. SEVERABILITY. Any provision of this Agreement that in any way contravenes any provision of applicable law shall, to the extent that the law is contravened, be considered severable and not applicable and shall not alter or affect any other provision or provisions of this Agreement.

10. COMPLETE AGREEMENT; AMENDMENT. The provisions of this Agreement constitute the entire Agreement among the parties. This Agreement may be amended, modified or otherwise changed only by an instrument in writing executed by all of the parties, and no waiver, alteration or modification of any of the provisions hereof shall be binding upon a party unless in writing and signed by such party or his duly authorized representative. The provisions of this Agreement supersede and revoke the provisions of any other agreement of the parties related to the subject matter hereof.

11. TAXES AND OTHER LIABILITIES. The Consultant shall indemnify and hold harmless the Company from and against any taxes, interests or penalties assessed against the Company for payments made to the Consultant, or any liabilities or obligations incurred by the Consultant which have not been authorized in writing, in advance, by the Company.

12. ARBITRATION. Any dispute relating to this Agreement shall be resolved in accordance with the arbitration provisions of the Enterprise Engines, Inc. Stock Purchase Agreement dated December 15, 1999 among the Company, the Consultant and Enterprise Engines, Inc.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement at Santa Barbara, California this 15th day of December, 1999.

COMPANY:

QAD Inc.,
a Delaware corporation

By: /s/ A.J. Moyer

Name: Albert J. Moyer
Title: Chief Financial Officer

C0NSULTANT:

/s/ David A. Taylor

David A. Taylor

RELEASE

For and in consideration of that certain Enterprise Engines, Inc. Stock Purchase Agreement by and among QAD INC. (the "Purchaser"), DAVID A. TAYLOR (the "Seller") and ENTERPRISE ENGINES, INC. (the "Company") dated December 15, 1999 (the "Stock Purchase Agreement"), Purchaser, Seller and the Company hereby enter into this Mutual Release.

1. Release by Seller. Seller does hereby fully and forever release and discharge the Purchaser and the Company, and any and all entities owned or controlled by any of the foregoing, and all the officers, directors, employees and agents of those entities (collectively, the "Purchaser Releasees") from and against any and all claims, causes of action, rights, damages, costs, losses or expenses or any other claims, causes of action or rights of any kind whatsoever, whether known or unknown (collectively, the "Purchaser Claims") that the Seller may assert on the basis of facts in existence on the date hereof against the Purchaser Releasees arising out of, or in any way related to or connected with the Purchaser Releasees, provided, however, that the Purchaser Releasees shall not be released and discharged of any Purchaser Claims directly related to (i) the Stock Purchase Agreement, (ii) the Promissory Note, (ii) the QAD Stock, (iii) the Consulting Agreement or (iv) the Noncompetion Agreement (all as defined in the Stock Purchase Agreement).

2. Release by Purchaser and the Company. Purchaser and the Company do hereby fully and forever release and discharge the Seller from and against any and all claims, causes of action, rights, damages, costs, losses or expenses or any other claims, causes of action or rights of any kind whatsoever, whether known or unknown (collectively, the "Seller Claims") that the Purchaser or the Company may assert on the basis of facts in existence on the date hereof against the Seller arising out of, or in any way related to or connected with the Seller, provided, however, that the Seller shall not be released and discharged of any Seller Claims directly related to (i) the Stock Purchase Agreement, (ii) the Consulting Agreement or (iii) the Noncompetion Agreement (all as defined in the Stock Purchase Agreement).

3. Section 1542. Seller, Purchaser and the Company agree that this Mutual Release shall also apply to those types of claims set forth in Section 1542 of the California Civil Code, which provides:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

4. No Assignment. Each of Seller, Purchaser and the Company represents that it has not assigned any claims that it may have and is fully able to sign this Mutual Release. Each of Seller Purchaser and the Company further agree that it has sought independent counsel prior to the execution of this Mutual Release.

Executed this 15th day of December, 1999.

PURCHASER:

QAD Inc.

By: /s/ A.J. Moyer

Name: Albert J. Moyer
Title: Chief Financial Officer

SELLER:

/s/ David A. Taylor

David A. Taylor

COMPANY:

ENTERPRISE ENGINES, INC.

By: /s/ David A. Taylor

Name: David A. Taylor
Title: President and Chief Executive Officer

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.

3.9 Arbitration. Any dispute relating ot this Agreement shall be resolved in accordance with the arbitation 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: /s/ A.J. Moyer

Name: Albert J. Moyer
Title: Chief Financial Officer

SELLER:

/s/ David A. Taylor

David A. Taylor

COMPANY:

ENTERPRISE ENGINES, INC.

By: /s/ David A. Taylor

Name: David A. Taylor
Title: President and Chief Executive Officer

CONSENT OF INDEPENDENT AUDITORS

To Board of Directors
QAD Inc.:

We consent to the incorporation by reference in the Registration Statement on Form S-3 of QAD Inc. of our report dated March 5, 1999 (except for Note 7, which was as of April 26, 1999), relating to the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 1999, and 1998, and the related consolidated statements of operations, retained earnings, and cash flows for each of the years in the three-year period ended January 31, 1999, and all related schedules, which report appears in the January 31, 1999, annual report on Form 10-K of QAD Inc. and to the reference to our firm under the heading "Experts" in the prospectus.

KPMG LLP

/S/ KPMG LLP

Los Angeles, California
February 2, 2000