

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **April 30, 2012**

OR

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

For the transition period from _____ to _____

Commission file number **0-22823**

QAD Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

77-0105228

(I.R.S. Employer Identification No.)

100 Innovation Place, Santa Barbara, California 93108

(Address of principal executive offices)

(805) 566-6000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒.

As of May 31, 2012, there were 12,623,395 shares of the Registrant's Class A common stock outstanding and 3,160,379 shares of the Registrant's Class B common stock outstanding.

QAD INC.
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PART I

ITEM 1 – FINANCIAL STATEMENTS

QAD INC. CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data) (unaudited)

	April 30, 2012	January 31, 2012
Assets		
Current assets:		
Cash and equivalents	\$ 78,353	\$ 76,927
Accounts receivable, net	45,103	64,757
Deferred tax assets, net	4,354	4,355
Other current assets	13,167	11,853
Total current assets	140,977	157,892
Property and equipment, net	32,880	33,139
Capitalized software costs, net	589	583
Goodwill	6,426	6,412
Deferred tax assets, net	17,959	17,285
Other assets, net	2,791	2,834
Total assets	\$ 201,622	\$ 218,145
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 330	\$ 321
Accounts payable	6,627	9,724
Deferred revenue	85,697	93,871
Other current liabilities	25,965	31,099
Total current liabilities	118,619	135,015
Long-term debt	15,724	15,813
Other liabilities	5,271	5,302
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; none issued or outstanding	—	—
Common stock:		
Class A, \$0.001 par value. Authorized 71,000,000 shares; issued 14,146,837 shares and 14,146,418 shares at April 30, 2012 and January 31, 2012, respectively	14	14
Class B, \$0.001 par value. Authorized 4,000,000 shares; issued 3,536,663 shares and 3,536,609 shares at April 30, 2012 and January 31, 2012, respectively	4	4
Additional paid-in capital	149,065	148,993
Treasury stock, at cost (1,862,405 shares and 1,804,137 shares at April 30, 2012 and January 31, 2012, respectively)	(28,598)	(27,968)
Accumulated deficit	(48,568)	(48,974)
Accumulated other comprehensive loss	(9,909)	(10,054)
Total stockholders' equity	62,008	62,015
Total liabilities and stockholders' equity	\$ 201,622	\$ 218,145

See Accompanying Notes to Condensed Consolidated Financial Statements.

QAD INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(in thousands, except per share data)
(unaudited)

	Three Months Ended April 30,	
	2012	2011
Revenue:		
License fees	\$ 7,865	\$ 6,344
Maintenance and other	34,520	34,338
Subscription fees	3,223	2,208
Professional services	18,100	16,513
Total revenue	<u>63,708</u>	<u>59,403</u>
Costs of revenue:		
License fees	881	1,031
Maintenance, subscription and other	10,000	8,775
Professional services	15,738	16,288
Total cost of revenue	<u>26,619</u>	<u>26,094</u>
Gross profit	37,089	33,309
Operating expenses:		
Sales and marketing	15,496	14,489
Research and development	9,534	8,483
General and administrative	8,105	7,713
Total operating expenses	<u>33,135</u>	<u>30,685</u>
Operating income	3,954	2,624
Other expense (income):		
Interest income	(163)	(136)
Interest expense	286	270
Other expense, net	446	818
Total other expense, net	<u>569</u>	<u>952</u>
Income before income taxes	3,385	1,672
Income tax expense	<u>1,541</u>	<u>652</u>
Net income	<u>\$ 1,844</u>	<u>\$ 1,020</u>
Basic net income per share		
Class A	\$ 0.12	\$ 0.07
Class B	\$ 0.10	\$ 0.06
Diluted net income per share		
Class A	\$ 0.12	\$ 0.06
Class B	\$ 0.10	\$ 0.05
Comprehensive income:		
Foreign currency translation adjustment, net of tax	145	(570)
Total comprehensive income	<u>\$ 1,989</u>	<u>\$ 450</u>

See Accompanying Notes to Condensed Consolidated Financial Statements.

QAD INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended April 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 1,844	\$ 1,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,115	1,337
(Recovery of) provision for doubtful accounts and sales adjustments	(36)	73
Stock compensation expense	1,039	1,112
Excess tax benefits from share-based payment arrangements	(51)	(4)
Other, net	—	(59)
Changes in assets and liabilities:		
Accounts receivable	19,644	17,780
Other assets	(1,845)	151
Accounts payable	(3,152)	(2,816)
Deferred revenue	(8,475)	(6,430)
Other liabilities	(4,996)	(6,653)
Net cash provided by operating activities	5,087	5,511
Cash flows from investing activities:		
Purchase of property and equipment	(685)	(781)
Capitalized software costs	(105)	(13)
Other	1	16
Net cash used in investing activities	(789)	(778)
Cash flows from financing activities:		
Repayments of debt	(80)	(96)
Tax payments, net of proceeds, related to stock awards	(338)	(25)
Excess tax benefits from share-based payment arrangements	51	4
Dividends paid	(948)	(330)
Repurchase of common stock	(1,791)	—
Net cash used in financing activities	(3,106)	(447)
Effect of exchange rates on cash and equivalents	234	1,849
Net increase in cash and equivalents	1,426	6,135
Cash and equivalents at beginning of period	76,927	67,276
Cash and equivalents at end of period	\$ 78,353	\$ 73,411
Supplemental disclosure of non-cash activities:		
Obligations associated with dividend declaration	\$ 1,100	\$ 934
Dividends paid in stock	128	596

See Accompanying Notes to Condensed Consolidated Financial Statements.

QAD INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements fairly present the financial information contained therein. These statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In management's opinion, all necessary adjustments, consisting of normal, recurring and non-recurring adjustments, have been included in the accompanying Condensed Consolidated Financial Statements to present fairly the financial position and operating results of QAD Inc. ("QAD" or the "Company"). The Condensed Consolidated Financial Statements do not include all disclosures required by accounting principles generally accepted in the United States of America for annual financial statements and should be read in conjunction with the audited financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2012. The Condensed Consolidated Financial Statements include the results of the Company and its wholly owned subsidiaries. The results of operations for the three months ended April 30, 2012 are not necessarily indicative of the results to be expected for the year ending January 31, 2013.

2. COMPUTATION OF NET INCOME PER SHARE

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

	Three Months Ended April 30,	
	2012	2011
	(in thousands)	
Net income	\$ 1,844	\$ 1,020
Less: Dividends declared	(1,078)	(934)
Undistributed net income	<u>\$ 766</u>	<u>\$ 86</u>
Net income per share – Class A Common Stock		
Dividends declared	\$ 890	\$ 774
Allocation of undistributed net income	634	71
Net income attributable to Class A common stock	<u>\$ 1,524</u>	<u>\$ 845</u>
Weighted average shares of Class A common stock outstanding— <i>basic</i>	12,693	12,797
Weighted average potential shares of Class A common stock	519	395
Weighted average shares of Class A common stock and potential common shares outstanding— <i>diluted</i>	<u>13,212</u>	<u>13,192</u>
Basic net income per Class A common share	<u>\$ 0.12</u>	<u>\$ 0.07</u>
Diluted net income per Class A common share	<u>\$ 0.12</u>	<u>\$ 0.06</u>
Net income per share – Class B Common Stock		
Dividends declared	\$ 188	\$ 160
Allocation of undistributed net income	132	15
Net income attributable to Class B common stock	<u>\$ 320</u>	<u>\$ 175</u>
Weighted average shares of Class B common stock outstanding— <i>basic</i>	3,168	3,184
Weighted average potential shares of Class B common stock	119	99
Weighted average shares of Class B common stock and potential common shares outstanding— <i>diluted</i>	<u>3,287</u>	<u>3,283</u>
Basic net income per Class B common share	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Diluted net income per Class B common share	<u>\$ 0.10</u>	<u>\$ 0.05</u>

Potential common shares consist of the shares issuable upon the release of restricted stock units (“RSUs”) and the exercise of stock options and stock appreciation rights (“SARs”). The Company’s unvested RSUs are not considered participating securities as they do not have rights to dividends or dividend equivalents prior to release. In addition, the Company’s unexercised stock options and SARs are not considered participating securities as they do not have rights to dividends or dividend equivalents prior to exercise. Class A common stock equivalents of approximately 2.1 million for each of the three months ended April 30, 2012 and 2011, were not included in the diluted calculation because their effects were anti-dilutive. Class B common stock equivalents of approximately 0.4 million and 0.5 million for the three months ended April 30, 2012 and 2011, respectively, were not included in the diluted calculation because their effects were anti-dilutive.

3. FAIR VALUE MEASUREMENTS

When determining fair value the Company uses a three-tier value hierarchy which prioritizes the inputs used in measuring fair value. Whenever possible, the Company uses observable market data. The Company relies on unobservable inputs only when observable market data is not available. Classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table sets forth the financial assets, measured at fair value, as of April 30, 2012 and January 31, 2012:

	Fair value measurement at reporting date using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)		
Money market mutual funds as of April 30, 2012	\$ 53,416	\$ —	\$ —
Money market mutual funds as of January 31, 2012	\$ 48,242	\$ —	\$ —

Money market mutual funds are classified as part of “Cash and equivalents” in the accompanying Condensed Consolidated Balance Sheets. In addition, the amount of cash and equivalents included cash deposited with commercial banks of \$24.9 million and \$28.7 million as of April 30, 2012 and January 31, 2012, respectively.

There have been no transfers between fair value measurement levels during the quarter ended April 30, 2012.

The carrying amounts of cash and equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturities of these instruments. The Company’s line of credit bears a variable market interest rate, subject to certain minimum interest rates. Therefore, should the Company have any amounts outstanding under the line of credit, the carrying value of the line of credit would reasonably approximate fair value. As of April 30, 2012, the Company’s note payable bears a fixed rate of 6.5%. The estimated fair value of the note payable was approximately \$17.0 million at April 30, 2012 and the carrying value was \$16.1 million. The estimated fair value of the note payable is based primarily on expected market prices for bank loans with similar terms and maturities.

4. GOODWILL

The changes in the carrying amounts of goodwill for the three months ended April 30, 2012, were as follows:

	Gross Carrying Amount	Accumulated Impairment (in thousands)	Goodwill, Net
Balance at January 31, 2012	\$ 22,020	\$ (15,608)	\$ 6,412
Impact of foreign currency translation	14	—	14
Balance at April 30, 2012	<u>\$ 22,034</u>	<u>\$ (15,608)</u>	<u>\$ 6,426</u>

The Company performed its annual impairment review during the fourth quarter of fiscal 2012. The analysis compared the Company's market capitalization to its net assets as of the test date, November 30, 2011. As the market capitalization significantly exceeded the Company's net assets, there was no indication of goodwill impairment for fiscal 2012. The Company monitors the indicators for goodwill impairment testing between annual tests. No adverse events occurred during the three months ended April 30, 2012 that would cause the Company to test goodwill for impairment.

5. DEBT

	April 30, 2012	January 31, 2012
	(in thousands)	
Note payable	\$ 16,054	\$ 16,134
Less current maturities	(330)	(321)
Long-term debt	<u>\$ 15,724</u>	<u>\$ 15,813</u>

Note Payable

In July 2004, QAD Ortega Hill, LLC, a wholly owned limited liability company of QAD Inc., entered into a loan agreement (the "2004 Mortgage") with Mid-State Bank & Trust, a bank which was subsequently purchased by Rabobank, N.A. The 2004 Mortgage had an original principal amount of \$18.0 million and bore interest at a fixed rate of 6.5%. The 2004 Mortgage was secured by the Company's headquarters located in Santa Barbara, California. The terms of the 2004 Mortgage provided for QAD Ortega Hill, LLC to make 119 monthly payments of \$115,000 consisting of principal and interest and one final principal payment of \$15.4 million. The 2004 Mortgage was scheduled to mature in July 2014. The unpaid balance as of April 30, 2012 was \$16.1 million.

Effective May 30, 2012, QAD Ortega Hill, LLC, a wholly owned limited liability company of QAD Inc., entered into a variable rate credit agreement (the "Agreement") with Rabobank, N.A., to refinance the 2004 Mortgage. The Agreement provides for an initial principal amount of \$16.1 million and bears interest at LIBOR plus 2.25%. The Agreement matures in June 2022 and is secured by the Company's headquarters located in Santa Barbara, California. In conjunction with the Agreement, QAD Ortega Hill, LLC entered into an interest rate swap with Rabobank, N.A. The swap agreement has an initial notional amount and schedule matching that of the underlying loan that synthetically fixed the all-in interest rate on the debt at 4.31%. The terms of the Agreement provide for QAD Ortega Hill, LLC to make net monthly payments of \$88,100 consisting of principal and interest and one final payment of \$11.7 million.

Credit Facility

On July 8, 2011, the Company entered into an unsecured credit agreement with Rabobank, N.A. (the "Facility"). The Facility provides a one-year commitment for a \$20 million line of credit for working capital or other business needs. The Company will pay a commitment fee of 0.25% per annum of the daily average of the unused portion of the \$20 million Facility. Borrowings under the Facility bear interest at a rate equal to LIBOR plus 0.75%.

The Facility provides that the Company maintain certain financial and operating ratios which include, among other provisions, minimum liquidity on a consolidated basis of \$25 million in cash and equivalents at all times, a current ratio (calculated using current liabilities excluding deferred revenue) of not less than 1.3 to 1.0 determined at the end of each fiscal quarter, a leverage ratio of not more than 1.5 to 1.0 determined at the end of each fiscal quarter, and a debt service coverage ratio of not less than 1.5 to 1.0 determined at the end of each fiscal year. The Facility also contains customary covenants that could restrict the Company's ability to incur additional indebtedness. At April 30, 2012, the effective borrowing rate would have been 1.0%.

As of April 30, 2012, there were no borrowings under the Facility and the Company was in compliance with the financial covenants. The Company expects to renew this facility prior to its expiration in July 2012, under competitive terms based on existing market conditions.

6. INCOME TAXES

The total amount of unrecognized tax benefits was \$2.6 million at April 30, 2012. The entire amount of unrecognized tax benefits, if recognized, will impact the Company's effective tax rate. This liability is classified as long-term unless the liability is expected to conclude within twelve months of the reporting date. In the next twelve months, due to potential settlements with both foreign and domestic tax authorities related to tax credits and deductions, an estimated \$0.3 million of unrecognized tax benefits may be recognized.

The Company's policy is to recognize interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. As of April 30, 2012, the Company has accrued approximately \$0.2 million of interest and penalty expense relating to unrecognized tax benefits.

The Company files U.S. federal, state, and foreign tax returns that are subject to audit by various tax authorities. The Company is currently under audit in India for fiscal years ended March 31, 1998, 1999, 2008, 2009, and 2010, and in California for fiscal years ended 2004 and 2005.

7. STOCKHOLDERS' EQUITY

Dividends

The following table sets forth the dividends declared and/or paid by the Company during fiscal 2013:

Declaration Date	Record Date	Payable	Dividend Class A	Dividend Class B	Amount Paid in Cash	Class A Shares Issued	Fair Value of Shares Issued
3/20/2012	6/4/2012	7/16/2012	\$ 0.072	\$ 0.060			
12/14/2011	3/13/2012	4/23/2012	\$ 0.072	\$ 0.060	\$ 948,000	12,000	\$ 128,000

Shares issued in payment of these dividends were issued out of treasury stock.

Stock Repurchase Activity

In September 2011, the Company's Board of Directors approved a stock repurchase plan. A total of one million shares may be repurchased under the plan and it may be suspended or discontinued at any time. Repurchases may be effected from time to time through open market purchases or pursuant to the Rule 10b5-1 plan.

In fiscal 2013, the Company repurchased 117,000 shares and 18,000 shares, respectively, of the Company's Class A and Class B common stock. The average share price was \$13.29 and \$13.31 for Class A and Class B stock, respectively, for total cash consideration of \$1.8 million including fees. A total of 489,000 shares remained available for purchase under the plan as of April 30, 2012.

8. STOCK-BASED COMPENSATION

The Company's equity awards consist of stock options, SARs and RSUs. For a description of the Company's stock-based compensation plans, see Note 9 "Stock-Based Compensation" in Notes to Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended January 31, 2012.

Stock-Based Compensation

The following table sets forth reported stock-based compensation expense for the three months ended April 30, 2012 and 2011:

	Three Months Ended April 30,	
	2012	2011
	(in thousands)	
Cost of maintenance, subscription and other revenue	\$ 48	\$ 52
Cost of professional services	111	126
Sales and marketing	188	209
Research and development	153	167
General and administrative	539	558
Total stock-based compensation expense	<u>\$ 1,039</u>	<u>\$ 1,112</u>

Option/SAR Information

The weighted average assumptions used to value SARs granted in the three months ended April 30, 2012 and 2011 are shown in the following table:

	Three Months Ended April 30,	
	2012	2011
Expected life in years ⁽¹⁾	3.75	3.75
Risk free interest rate ⁽²⁾	0.61%	1.54%
Volatility ⁽³⁾	65%	71%
Dividend rate ⁽⁴⁾	2.73%	2.23%

⁽¹⁾ The expected life of SARs granted under the stock-based compensation plan is based on historical vested stock option and SAR exercise and post-vest forfeiture patterns and includes an estimate of the expected term for stock options and SARs that were fully vested and outstanding.

⁽²⁾ The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of SARs in effect at the time of grant.

⁽³⁾ The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of the Company's common stock for a period equivalent to the expected life of the SARs, which it believes is representative of the expected volatility over the expected life of the SARs.

⁽⁴⁾ The Company expects to continue paying quarterly dividends at the same rate as the three months ending on April 30, 2012.

The following table summarizes the activity for outstanding stock options and SARs for the fiscal year ended January 31, 2012 and the three months ended April 30, 2012:

	Stock Options/ SARs (in thousands)	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 31, 2011	2,653	\$ 11.33		
Granted	502	10.28		
Exercised	(164)	8.08		
Expired	(46)	14.28		
Forfeited	(74)	9.26		
Outstanding at January 31, 2012	2,871	\$ 11.34		
Granted	8	12.49		
Exercised	(132)	8.02		
Expired	(151)	24.55		
Forfeited	(10)	9.26		
Outstanding at April 30, 2012	2,586	\$ 10.74	4.7	\$ 6,258
Vested and expected to vest at April 30, 2012 ⁽¹⁾	<u>2,523</u>	\$ 10.78	4.7	\$ 6,074
Vested and exercisable at April 30, 2012	<u>1,281</u>	\$ 11.94	3.1	\$ 2,560

⁽¹⁾ The expected-to-vest SARs are the result of applying the pre-vesting forfeiture rate assumptions to total outstanding SARs.

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The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the aggregate difference between the closing stock price of the Company's common stock based on the last trading day as of April 30, 2012 and the exercise price for in-the-money stock options and SARs) that would have been received by the holders if all stock options and SARs had been exercised on April 30, 2012. The total intrinsic value of stock options or SARs exercised in the three months ended April 30, 2012 and 2011 was \$718,000 and \$90,000, respectively. The weighted average grant date fair value per share of SARs granted in the three months ended April 30, 2012 and 2011 was \$4.98 and \$4.10, respectively.

The number of SARs exercised includes shares withheld on behalf of employees to satisfy minimum statutory tax withholding requirements. During the quarter ended April 30, 2012, the Company withheld 19,000 shares for payment of these taxes at a value of \$263,000.

At April 30, 2012, there was approximately \$4.5 million of total unrecognized compensation cost related to unvested SARs. This cost is expected to be recognized over a weighted-average period of approximately 2.4 years.

RSU Information

The estimated fair value of RSUs was calculated based on the closing price of the Company's common stock on the date of grant, reduced by the present value of dividends foregone during the vesting period.

The following table summarizes the activity for RSUs for the fiscal year ended January 31, 2012 and the three months ended April, 30 2012:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Restricted stock at January 31, 2011	435	10.02
Granted	174	9.32
Vested ⁽¹⁾	(178)	11.02
Forfeited	(17)	9.35
Restricted stock at January 31, 2012	414	\$ 9.32
Granted	5	12.38
Vested ⁽¹⁾	(37)	8.24
Forfeited	(1)	9.36
Restricted stock at April 30, 2012	381	\$ 9.47

⁽¹⁾ The number of RSUs vested includes shares withheld on behalf of employees to satisfy statutory tax withholding requirements.

The Company withholds, at the employee's election, a portion of the vested shares as consideration for the Company's payment of applicable employee income taxes. During the three months ended April 30, 2012, the Company withheld 5,000 shares for payment of these taxes at a value of \$75,000.

Total unrecognized compensation cost related to RSUs was approximately \$2.2 million as of April 30, 2012. This cost is expected to be recognized over a weighted-average period of approximately 2.3 years.

9. COMMITMENTS AND CONTINGENCIES

Indemnifications

The Company sells software licenses and services to its customers under written agreements. Each agreement contains the relevant terms of the contractual arrangement with the customer and generally includes certain provisions for indemnifying the customer against losses, expenses and liabilities from damages that may be awarded against the customer in the event the Company's software is found to infringe upon certain intellectual property rights of a third party. The agreements generally limit the scope of and remedies for such indemnification obligations in a variety of industry-standard respects.

The Company believes its internal development processes and other policies and practices limit its exposure related to the indemnification provisions of the agreements. For several reasons, including the lack of prior indemnification claims and the lack of a monetary liability limit for certain infringement cases under the agreements, the Company cannot determine the maximum amount of potential future payments, if any, related to such indemnification provisions.

Legal Actions

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

10. BUSINESS SEGMENT INFORMATION

The Company markets its products and services worldwide, primarily to companies in the manufacturing industry, including the automotive, consumer products, food and beverage, high technology, industrial products and life sciences industries. The Company sells and licenses its products through its direct sales force in four geographic regions: North America, Europe, Middle East and Africa ("EMEA"), Asia Pacific and Latin America and through distributors where third parties can extend sales reach more effectively or efficiently. The North America region includes the United States and Canada. The EMEA region includes Europe, the Middle East and Africa. The Asia Pacific region includes Asia and Australia. The Latin America region includes South America, Central America and Mexico.

License and subscription revenues are assigned to the geographic regions based on the proportion of commissions earned by each region. Maintenance revenue is allocated to the region where the end user customer is located. Services revenue is assigned based on the region where the services are performed.

	Three Months Ended April 30,	
	2012	2011
	(in thousands)	
Revenue:		
North America ⁽¹⁾	\$ 28,518	\$ 25,280
EMEA	18,549	18,450
Asia Pacific	11,759	10,627
Latin America	4,882	5,046
	<u>\$ 63,708</u>	<u>\$ 59,403</u>

⁽¹⁾ Sales into Canada accounted for 3% of North America total revenue in the three months ended April 30, 2012 and 2011.

11. SUBSEQUENT EVENT

On June 6, 2012, the Company acquired all of the outstanding stock of DynaSys S.A. ("DynaSys"), a provider of supply chain planning software solutions. DynaSys was founded in 1985 and is headquartered in Strasbourg, France. The total purchase price of \$7.5 million was paid in cash on June 6, 2012. In connection with the acquisition, the Company placed \$0.6 million of the purchase price into escrow to satisfy any claims for indemnification made in accordance with the terms of the stock purchase agreement. Any remaining funds will be disbursed to DynaSys' former shareholders six months after the acquisition date. The Company completed the acquisition with the purpose of expanding its product offerings and driving revenue growth. The Company plans to build on DynaSys' existing markets and further expand the penetration of n.SKEP, DynaSys' flagship product, into the Company's global customer base and the global supply chain planning market. DynaSys will operate as a division of the Company.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Any statements contained herein that are not statements of historical fact should be construed as forward looking statements, including statements that are preceded or accompanied by such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” “intend” and words of similar meaning or the negative of these terms or other comparable terminology. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part I, Item 1A entitled “Risk Factors” within our Annual Report on Form 10-K for the year ended January 31, 2012. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof and are subject to risks, uncertainties and assumptions about our business. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements except as required by applicable securities laws. Readers should carefully review the risk factors and other information described in other documents we file from time to time with the Securities and Exchange Commission (“SEC”).

INTRODUCTION

The following discussion should be read in conjunction with the information included within our Annual Report on Form 10-K for the year ended January 31, 2012, and the Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q.

OVERVIEW

QAD Inc. (“QAD”, the “Company”, “we” or “us”) is a global provider of enterprise software applications, and related services and support. QAD provides enterprise software applications to global manufacturing companies primarily in the automotive, consumer products, food and beverage, high technology, industrial products and life sciences industries. Over 2,500 global manufacturing companies use QAD software and we employ approximately 1,500 people worldwide. QAD was founded in 1979, incorporated in California in 1986 and reincorporated in Delaware in 1997.

QAD’s enterprise resource planning (“ERP”) suite is QAD Enterprise Applications, which is also known as MFG/PRO. QAD Enterprise Applications supports the core business processes of our global manufacturing customers and includes the following functional areas: financials, customer management, manufacturing, supply chain, service and support, enterprise asset management, transportation management and analytics.

QAD offers two deployment models: On Premise and On Demand. With the On Premise model, QAD sells a perpetual license for the software and our customers then deploy the software on their own computer servers. Under the perpetual licensing model, customers may separately purchase contracts for maintenance and additional services. With QAD’s On Demand deployment model, customers subscribe to a service and QAD provides access to the software as well as ongoing support services and management of the environment. The majority of QAD’s customers use the On Premise model, although On Demand is increasing in acceptance and, as a result, it is a deployment model we are focusing on expanding.

Our revenue has grown in all categories and our overall revenue has increased by 7% when compared to the same quarter of last year. In addition, our overall headcount has increased by approximately 115 employees, or 8%, when comparing April 30, 2012 to April 30, 2011. We have benefited from the positive momentum of an improved economic environment primarily in North America, but we continue to believe that the pace of the global economic recovery remains uncertain, particularly with respect to Europe. Our strategy remains focused on the development and delivery of best-in-class enterprise resource planning software applications for the manufacturing industry in our six key industry segments. Our operating cash flow has been positive, which has supported our increase in headcount. We have also returned value to our shareholders through a stock repurchase program and quarterly dividend payments.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared applying certain critical accounting policies. Critical accounting policies require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect our reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on our future financial condition and results of operations. Our financial statements are prepared in accordance with U.S. GAAP, and they conform to general practices in our industry. We apply critical accounting policies consistently from period to period and intend that any change in methodology occur in an appropriate manner. Accounting policies currently deemed critical, including a) revenue recognition; b) accounts receivable allowances for bad debt and sales returns; c) valuation of deferred tax assets and tax contingency reserves; and d) stock-based compensation are further discussed in the Annual Report on Form 10-K for the fiscal year ended January 31, 2012. There have been no significant changes to our accounting policies and estimates as discussed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012.

RESULTS OF OPERATIONS

We operate in several geographical regions as described in Note 10 “Business Segment Information” within Notes to Condensed Consolidated Financial Statements. In order to present our results of operations without the effects of changes in foreign currency, we provide certain financial information on a “constant currency basis”, which is in addition to the actual financial information presented in the following tables. In order to calculate our constant currency results, we apply the foreign currency exchange rates that were in effect during the prior period to the current period results.

Revenue

	Three Months Ended April 30, 2012	Increase Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
<i>(in thousands)</i>				
Revenue				
License fees	\$ 7,865	\$ 1,521	24%	\$ 6,344
Percentage of total revenue	12%			11%
Maintenance and other	34,520	182	1%	34,338
Percentage of total revenue	54%			58%
Subscription fees	3,223	1,015	46%	2,208
Percentage of total revenue	5%			3%
Professional services	18,100	1,587	10%	16,513
Percentage of total revenue	29%			28%
Total revenue	<u>\$ 63,708</u>	<u>\$ 4,305</u>	7%	<u>\$ 59,403</u>

Total Revenue. Total revenue was \$63.7 million and \$59.4 million for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, total revenue for the current quarter would have been approximately \$63.7 million, representing a \$4.3 million, or 7%, increase from the same period last year. When comparing categories within total revenue at constant rates, our current quarter results included increases in our license, subscription and services revenue categories and a slight decrease in our maintenance and other revenue category. Revenue outside the North America region as a percentage of total revenue was 55% and 57% for the first quarter of fiscal 2013 and fiscal 2012, respectively. Total revenue increased most significantly in our North America region during the first quarter of fiscal 2013 when compared to the same quarter last year. In addition, Asia Pacific increased, EMEA remained relatively flat and Latin America decreased. Our products are sold to manufacturing companies that operate mainly in the following six industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. Given the similarities between food and beverage and consumer products as well as between high technology and industrial products, we aggregate them for management review. Revenue by industry for the first quarter of fiscal 2013 was approximately 29% in automotive, 23% in consumer products and food and beverage, 34% in high technology and industrial products and 14% in life sciences. In comparison, revenue by industry for the first quarter of fiscal 2012 was approximately 28% in automotive, 23% in consumer products and food and beverage, 35% in high technology and industrial products and 14% in life sciences.

License Revenue. License revenue was \$7.9 million and \$6.3 million for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, license revenue for the current quarter would have been approximately \$7.8 million, representing a \$1.5 million, or 24%, increase from the same period last year. License revenue increased across our North America and Asia Pacific regions and decreased in our EMEA and Latin America regions during the first quarter of fiscal 2013 when compared to the same quarter last year. One of the metrics that management uses to measure license revenue performance is the number of customers that have placed sizable license orders in the period. During the first quarter of fiscal 2013, three customers placed license orders totaling more than \$0.3 million and no orders exceeded \$1.0 million. This was consistent with the first quarter of fiscal 2012 in which three customers placed license orders totaling more than \$0.3 million and no orders exceeded \$1.0 million. Although license orders greater than \$0.3 million were consistent quarter over quarter, license revenue increased due to a greater amount of revenue recognition deferrals in fiscal 2012 in addition to higher revenue per order in fiscal 2013 compared to the prior year.

Maintenance and Other Revenue. Maintenance and other revenue was \$34.5 million and \$34.3 million for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, the first quarter of fiscal 2013 maintenance and other revenue would have been approximately \$34.2 million, representing a \$0.1 million decrease from the same period last year. Maintenance and other revenue decreased across our Latin America and Asia Pacific regions and increased in our North America and EMEA regions during the first quarter of fiscal 2013 when compared to the same quarter last year.

We track our rate of contract renewals by determining the number of customer sites with active contracts as of the end of the previous reporting period and compare this to the number of customers that renewed, or are in the process of renewing, their maintenance contracts as of the current period end. Our maintenance contract renewal rate has remained in excess of 90% for the first quarters of both fiscal 2013 and 2012.

Subscription Revenue. Subscription revenue was \$3.2 million and \$2.2 million for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, subscription revenue for the current quarter would have been approximately \$3.2 million, representing a \$1.0 million, or 45%, increase from the same period last year. Subscription revenue increased across our North America, EMEA and Asia Pacific regions and was flat in our Latin America region during the first quarter of fiscal 2013 when compared to the same quarter last year. The increase in subscription revenue was due to additional revenue related to our On Demand product offering. Currently, a majority of our On Demand sales are in the North America region. We expect the growth rate of subscription revenue in the future to be primarily attributable to growth in sales of our On Demand product offering.

Professional Services Revenue. Professional services revenue was \$18.1 million and \$16.5 million for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, professional services revenue for the first quarter of fiscal 2013 would have been approximately \$18.6 million, representing a \$2.1 million, or 13%, increase from the same period last year. Professional services revenue increased across our North America, EMEA and Latin America regions and decreased in our Asia Pacific region during the first quarter of fiscal 2013 compared to the same quarter last year. The increase in professional services revenue quarter over quarter is primarily attributed to the recognition of previously deferred revenue related to one customer contract of \$1.3 million. The costs related to this customer contract had been expensed in previous periods.

Cost of Revenue

	Three Months Ended April 30, 2012	Increase (Decrease) Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
<i>(in thousands)</i>				
Cost of revenue				
Cost of license fees	\$ 881	\$ (150)	-15%	\$ 1,031
Cost of maintenance, subscription and other	10,000	1,225	14%	8,775
Cost of professional services	15,738	(550)	-3%	16,288
Total cost revenue	\$ 26,619	\$ 525	2%	\$ 26,094
Percentage of revenue	42%			44%

Cost of license fees includes license royalties, amortization of capitalized software costs and shipping costs. Cost of maintenance, subscription and other includes personnel costs of fulfilling maintenance and subscription contracts, stock-based compensation for those employees, travel expense, professional fees, hosting costs, royalties, direct material and an allocation of information technology and facilities costs. Direct material charges include the cost of fulfilling maintenance and subscription contracts, hardware, costs associated with transferring our software to electronic media, printing of user manuals and packaging materials. Cost of professional services includes personnel costs of fulfilling service contracts, stock-based compensation for those employees, third-party contractor expense, travel expense for services employees and an allocation of information technology and facilities costs.

Total Cost of Revenue. Total cost of revenue (combined cost of license fees, cost of maintenance, subscription and other and cost of professional services) was \$26.6 million for the first quarter of fiscal 2013 and \$26.1 million for the first quarter of fiscal 2012, and as a percentage of total revenue was 42% and 44% for the first quarter of fiscal 2013 and 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, total cost of revenue for the first quarter of fiscal 2013 would have been approximately \$27.2 million and as a percentage of total revenue would have been 43%. The non-currency related increase in cost of revenue of \$1.1 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to higher personnel and hosting costs associated with higher subscription revenue.

Cost of License Fees. Cost of license fees was \$0.9 million and \$1.0 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, cost of license fees for the first quarter of fiscal 2013 would have been unchanged at \$0.9 million. The non-currency related decrease in cost of license fees of \$0.1 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was due to lower amortization of capitalized software costs.

Cost of Maintenance, Subscription and Other. Cost of maintenance, subscription and other was \$10.0 million and \$8.8 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, cost of maintenance, subscription and other in the first quarter of fiscal 2013 would have been approximately \$10.2 million representing an increase of \$1.4 million, or 16%. The non-currency related increase in cost of maintenance, subscription and other of \$1.4 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to higher subscription costs, which included higher personnel costs related to increased headcount of 25 people and higher hosting costs. The higher subscription costs were incurred to support the growth in our subscription business.

Cost of Professional Services. Cost of professional services was \$15.7 million and \$16.3 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, cost of professional services for the first quarter of fiscal 2013 would have been approximately \$16.2 million, representing a decrease of \$0.1 million, or 1%. The expense categories totaling cost of professional services were generally consistent quarter over quarter.

Sales and Marketing

	Three Months Ended April 30, 2012	Increase Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
(in thousands)				
Sales and marketing	\$ 15,496	\$ 1,007	7%	\$ 14,489
Percentage of revenue	24%			25%

Sales and marketing expense includes salaries, benefits, bonuses, stock-based compensation and travel expense for our sales and marketing employees in addition to costs of programs aimed at increasing revenue, such as trade shows, user group events, advertising and various sales and promotional programs. Sales and marketing expense also includes personnel costs of order processing, sales agent fees and an allocation of information technology and facilities costs.

Sales and marketing expense was \$15.5 million and \$14.5 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, sales and marketing expense for the first quarter of fiscal 2013 would have been approximately \$15.7 million, representing an increase of \$1.2 million, or 8%. The non-currency related increase in sales and marketing expense of \$1.2 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to higher personnel costs of \$0.3 million, higher bonuses of \$0.3 million, higher travel costs of \$0.3 million and higher sales agent fees of \$0.3 million.

Research and Development

	Three Months Ended April 30, 2012	Increase Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
(in thousands)				
Research and development	\$ 9,534	\$ 1,051	12%	\$ 8,483
Percentage of revenue	15%			14%

Research and development expense is expensed as incurred and consists primarily of salaries, benefits, bonuses, stock-based compensation and travel expense for research and development employees, professional services, such as fees paid to software development firms and independent contractors, and training. Research and development expense also includes an allocation of information technology and facilities costs, and is reduced by income from joint development projects.

Research and development expense was \$9.5 million and \$8.5 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, research and development expense for the first quarter of fiscal 2013 would have been approximately \$9.6 million, representing an increase of \$1.1 million, or 13%. The non-currency related increase in research and development expense of \$1.1 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to higher personnel costs of \$0.6 million related to higher headcount of 25 people due in part to increased internationalization efforts in addition to lower research and development funding from our customers of \$0.6 million related to one project that concluded in the first quarter of fiscal 2012.

Included as a reduction to research and development expense for the first quarter of fiscal 2013 is joint development income of \$0.5 million related to a project which will conclude in the third quarter of fiscal 2013. As part of our vertical focus we regularly seek to engage in joint development arrangements with our customers in order to enhance specific functionality and industry experience, although the number and size of joint development arrangements may fluctuate.

General and Administrative

	Three Months Ended April 30, 2012	Increase Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
(in thousands)				
General and administrative	\$ 8,105	\$ 392	5%	\$ 7,713
Percentage of revenue	13%			13%

General and administrative expense includes salaries, benefits, bonuses, stock-based compensation and travel expense for our finance, human resources, legal and executive personnel, as well as professional fees for accounting and legal services, bad debt expense and an allocation of information technology and facilities costs.

General and administrative expense was \$8.1 million and \$7.7 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. Holding foreign currency exchange rates constant to fiscal 2012, general and administrative expense for the first quarter of fiscal 2013 would have been approximately \$8.2 million, representing an increase of \$0.5 million, or 6%. The non-currency related increase in general and administrative expense of \$0.5 million in the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to higher personnel costs of \$0.4 million related to higher headcount of 14 people, due to our system upgrade project and due to the expansion of our regional shared services center in China.

Other Expense (Income)

	Three Months Ended April 30, 2012	Increase (Decrease) Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
(in thousands)				
Other expense (income)				
Interest income	\$ (163)	\$ (27)	-20%	\$ (136)
Interest expense	286	16	6%	270
Other expense (income), net	446	(372)	-45%	818
Total other expense, net	\$ 569	\$ (383)	-40%	\$ 952
Percentage of revenue	1%			1%

Net other expense was \$0.6 million and \$1.0 million for the first quarter of fiscal 2013 and fiscal 2012, respectively. The favorable change primarily related to lower foreign exchange losses.

Income Tax Expense

	Three Months Ended April 30, 2012	Increase Compared to Prior Period		Three Months Ended April 30, 2011
		\$	%	
(in thousands)				
Income tax expense	\$ 1,541	\$ 889	136%	\$ 652
Percentage of revenue	2%			1%
Effective tax rate	46%			39%

We recorded income tax expense of \$1.5 million and \$0.7 million in the first quarter of fiscal 2013 and fiscal 2012, respectively. Our effective tax rate increased to 46% during the first quarter of fiscal 2013 compared to 39% for the same period in the prior year.

The higher effective tax rate for the first quarter of fiscal 2013 compared to the first quarter of fiscal 2012 was primarily due to the estimated tax benefit related to equity compensation recognized in our financial statements in excess of the actual tax benefit realized by the exercise of stock appreciation rights (SARs). Other factors contributing to the higher effective tax rate were the vesting of restricted stock units (RSUs) and expiration of equity awards. We are required to adjust our initial estimate to the actual tax benefit. We continue to benefit from operating in foreign locations, such as Ireland, due to its lower statutory income tax rate relative to the U.S. federal and state combined tax rate. This benefit is reduced by withholding taxes and foreign based company sales and services income that is taxed both in the U.S. and in the foreign jurisdiction. We expect our full year tax rate to be approximately 40%.

LIQUIDITY AND CAPITAL RESOURCES

Our primary source of cash is from the sale of software licenses, maintenance, subscription and professional services to our customers. Our primary use of cash is payment of our operating expenses which mainly consist of employee-related expenses, such as compensation and benefits, as well as general operating expenses for facilities and overhead costs. In addition to operating expenses, we also use cash for capital expenditures, repayment of debt and to invest in our growth initiatives, which could include acquisitions of products, technology and businesses, as well as payments of dividends and stock repurchases.

At April 30, 2012, our principal sources of liquidity were cash and equivalents totaling \$78.4 million and net accounts receivable of \$45.1 million. At April 30, 2012, our cash and equivalents consisted of current bank accounts, registered money market funds and time delineated deposits. Approximately 80% of our cash and equivalents were held in U.S. dollar denominated accounts as of April 30, 2012 and January 31, 2012. We have a U.S. line of credit facility that permits unsecured short-term borrowings of up to \$20 million. Our line of credit agreement contains customary covenants that could restrict our ability to incur additional indebtedness or make dispositions of assets if we fail to comply with them. Our line of credit is available for working capital or other business needs. We have not drawn down on the line of credit during any of the last three fiscal years nor do we expect to draw down on the line of credit during fiscal 2013.

Our primary commercial banking relationship is with Bank of America and its global affiliates. Our cash and equivalents are held by diversified financial institutions globally, and as of April 30, 2012 the portion of our cash and equivalents held by Bank of America was approximately 80%.

The amount of cash and equivalents held by foreign subsidiaries was \$67.7 million and \$58.9 million as of April 30, 2012 and January 31, 2012, respectively. If these funds are needed for our operations in the U.S., and if U.S. tax has not already been previously provided, we would be required to accrue and pay taxes in the U.S. to repatriate these funds. However, our current plans do not demonstrate a need to repatriate funds permanently reinvested in our foreign subsidiaries for our operations in the U.S.

The following table summarizes our cash flows for the three months ended April 30, 2012 and 2011, respectively.

<i>(in thousands)</i>	Three Months Ended	Three Months Ended
	April 30, 2012	April 30, 2011
Net cash provided by operating activities	\$ 5,087	\$ 5,511
Net cash used in investing activities	(789)	(778)
Net cash used in financing activities	(3,106)	(447)
Effect of foreign exchange rates on cash and equivalents	234	1,849
Net increase in cash and equivalents	<u>\$ 1,426</u>	<u>\$ 6,135</u>

Net cash flows provided by operating activities was \$5.1 million for the first quarter of fiscal 2013 compared to \$5.5 million for the first quarter of fiscal 2012. The \$0.4 million decrease in net cash flows provided by operating activities was due primarily to the negative cash flow effect of changes in deferred revenue of \$2.0 million offset by the positive cash flow effect of changes in other liabilities of \$1.7 million. When comparing the current quarter to the same period last year, the negative impact of changes in deferred revenues was primarily caused by professional services revenue recognized during the current quarter for which we received payment in previous fiscal years. The positive impact of changes in other liabilities was primarily driven by lower bonus and commission payments in the current quarter.

Capital expenditures were \$0.7 million for the first quarter of fiscal 2013 and \$0.8 million for the first quarter of fiscal 2012. We expect capital expenditures in fiscal 2013 to remain fairly consistent with our capital expenditures during fiscal 2012.

Dividend-related payments for the first quarter of fiscal 2013 totaled \$0.9 million compared to \$0.3 million in the same period of fiscal 2012. Our dividend program allows shareholders the choice of stock or cash. The number of shares issued to holders of record as a stock dividend is calculated based on the average closing price of QAD's Class A common stock for the three trading days immediately following the election deadline. On September 22, 2011, we announced that our Board of Directors approved a 20 percent increase in our quarterly dividend to \$0.072 per share of Class A common stock and \$0.060 per share of Class B common stock. The Board of Directors evaluates our ability to continue to pay dividends and the structure of any dividends on a quarterly basis.

On September 22, 2011, we announced that our Board of Directors approved a stock repurchase program which authorizes management to purchase up to one million shares of the Company's Class A and/or Class B shares of common stock through open market transactions. The plan may be suspended or discontinued at any time. During the first quarter of fiscal 2013 we repurchased 117,000 and 18,000 shares of Class A and Class B common stock, respectively, for total consideration of \$1.8 million. There was no stock repurchase-related activity during the first quarter of fiscal 2012.

We have historically calculated accounts receivable days' sales outstanding ("DSO"), using the countback, or last-in first-out, method. This method calculates the number of days of billed revenue represented by the accounts receivable balance as of period end. When reviewing the performance of our entities, DSO under the countback method is used by management. It is management's belief that the countback method best reflects the relative health of our accounts receivable as of a given quarter-end or year-end because of the cyclical nature of our billings. Our billing cycle includes high annual maintenance renewal billings at year-end that will not be recognized as earned revenue until future periods.

DSO under the countback method was 62 days and 74 days at April 30, 2012 and 2011, respectively. DSO using the average method, which is calculated utilizing the accounts receivable balance and earned revenue for the most recent quarter, was 64 days and 74 days at April 30, 2012 and 2011, respectively. The decrease in DSO was primarily related to higher collections in excess of billings in the first quarter of fiscal 2013 compared to the same period last year. We believe our reserve methodology is adequate and our reserves are properly stated as of April 30, 2012 and the quality of our receivables remains good.

Cash requirements for items other than normal operating expenses are anticipated for capital expenditures, debt repayment, dividend payments and stock repurchases in addition to cash for acquisitions of new businesses, software products or technologies complementary to our business. On June 6, 2012, we acquired all of the outstanding stock of DynaSys. The total purchase price of \$7.5 million was paid in cash on June 6, 2012.

We believe that our cash on hand, net cash provided by operating activities and the available borrowings under our existing or a replacement credit facility will provide us with sufficient resources to meet our current and long-term working capital requirements, debt service, dividend payments, share repurchase payments and other cash needs for at least the next twelve months.

CONTRACTUAL OBLIGATIONS

A summary of future obligations under our various contractual obligations and commitments as of January 31, 2012 was disclosed in our Annual Report on Form 10-K for the year ended January 31, 2012. During the three months ended April 30, 2012 there have been no material changes in our contractual obligations or commercial commitments outside the ordinary course of business.

Credit Facility

On July 8, 2011, we entered into an unsecured credit agreement with Rabobank, N.A. (the "Facility"). The Facility provides a one-year commitment for a \$20 million line of credit for working capital or other business needs. We will pay a commitment fee of 0.25% per annum of the daily average of the unused portion of the \$20 million Facility. Borrowings under the Facility bear interest at a rate equal to LIBOR plus 0.75%.

The Facility provides that we maintain certain financial and operating ratios which include, among other provisions, minimum liquidity on a consolidated basis of \$25 million in cash and equivalents at all times, a current ratio (calculated using current liabilities excluding deferred revenue) of not less than 1.3 to 1.0 determined at the end of each fiscal quarter, a leverage ratio of not more than 1.5 to 1.0 determined at the end of each fiscal quarter, and a debt service coverage ratio of not less than 1.5 to 1.0 determined at the end of each fiscal year. The Facility also contains customary covenants that could restrict our ability to incur additional indebtedness. At April 30, 2012, the effective borrowing rate would have been 1.00%.

As of April 30, 2012, there were no borrowings under the Facility and we were in compliance with the financial covenants. We expect to renew this facility prior to its expiration in July 2012, under competitive terms based on existing market conditions.

Notes Payable

In July 2004, QAD Ortega Hill, LLC, a wholly owned limited liability company of QAD Inc., entered into a loan agreement (the “2004 Mortgage”) with Mid-State Bank & Trust, a bank which was subsequently purchased by Rabobank, N.A. The 2004 Mortgage had an original principal amount of \$18.0 million and bore interest at a fixed rate of 6.5%. The 2004 Mortgage was secured by our headquarters located in Santa Barbara, California. The terms of the 2004 Mortgage provided for QAD Ortega Hill, LLC to make 119 monthly payments of \$115,000 consisting of principal and interest and one final principal payment of \$15.4 million. The 2004 Mortgage was scheduled to mature in July 2014. The unpaid balance as of April 30, 2012 was \$16.1 million.

Effective May 30, 2012, QAD Ortega Hill, LLC, a wholly owned limited liability company of QAD Inc., entered into a variable rate credit agreement (the “Agreement”) with Rabobank, N.A., to refinance the 2004 Mortgage. The Agreement provides for an initial principal amount of \$16.1 million and bears interest at LIBOR plus 2.25%. The Agreement matures in June 2022 and is secured by our headquarters located in Santa Barbara, California. In conjunction with the Agreement, QAD Ortega Hill, LLC entered into an interest rate swap with Rabobank, N.A. The swap agreement has an initial notional amount and schedule matching that of the underlying loan that synthetically fixed the all-in interest rate on the debt at 4.31%. The terms of the Agreement provide for QAD Ortega Hill, LLC to make net monthly payments of \$88,100 consisting of principal and interest and one final payment of \$11.7 million.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Rates. We have operations in foreign locations around the world and we are exposed to risk resulting from fluctuations in foreign currency exchange rates. The foreign currencies for which we currently have the most significant exposure are the euro, Australian dollar, Japanese yen, Mexican peso, Brazilian real and South African rand. These foreign currency exchange rate movements could create a foreign currency gain or loss that could be realized or unrealized for us. Unfavorable movements in foreign currency exchange rates between the U.S. dollar and other foreign currencies may have an adverse impact on our operations. We did not have any foreign currency forward or option contracts or other material foreign currency denominated derivatives or other financial instruments open as of April 30, 2012.

We face two risks related to foreign currency exchange rates—translation risk and transaction risk. Amounts invested in our foreign operations are translated into U.S. dollars using period-end exchange rates. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss in the consolidated balance sheets. Revenues and expenses in foreign currencies translate into higher or lower revenues and expenses in U.S. dollars as the U.S. dollar weakens or strengthens against other currencies. Our international subsidiaries hold U.S. dollar and euro-based net monetary accounts subject to revaluation that results in realized or unrealized foreign currency gains or losses. Furthermore, we have exposure to foreign exchange fluctuations arising from the remeasurement of non-functional currency assets, liabilities and intercompany balances into U.S. dollars for financial reporting purposes.

For the three months ended April 30, 2012 and 2011, approximately 40% of our revenue was denominated in foreign currencies. We also incurred a significant portion of our expenses in currencies other than the U.S. dollar, approximately 45% for the three months ended April 30, 2012 and 2011. Based on a hypothetical 10% adverse movement in all foreign currency exchange rates, our operating income would be adversely affected by approximately 6% (our expenses would be adversely affected by approximately 5% of total expenses, partially offset by a positive effect on our revenue of approximately 4% of total revenue).

For the three months ended April 30, 2012 and 2011, foreign currency transaction and remeasurement losses totaled \$0.5 million and \$0.8 million, respectively, and are included in “Other (income) expense, net” in our Condensed Consolidated Statements of Income and Comprehensive Income. We performed a sensitivity analysis on the net U.S. dollar and euro-based monetary accounts subject to revaluation that are held by our international subsidiaries and on the non-functional currency assets, liabilities and intercompany balances that are remeasured into U.S. dollars. A hypothetical 10% adverse movement in all foreign currency exchange rates would result in foreign currency transaction and remeasurement losses of approximately \$1.0 million and our income before taxes would be adversely affected by approximately 30%.

These estimates assume an adverse shift in all foreign currency exchange rates against the U.S. dollar, which do not always move in the same direction or in the same degrees, and actual results may differ materially from the hypothetical analysis.

Interest Rates. We invest our surplus cash in a variety of financial instruments, consisting principally of short-term marketable securities with maturities of less than 90 days at the date of purchase. Our investment securities are held for purposes other than trading. Cash balances held by subsidiaries are invested primarily in registered money market funds with local operating banks. As of April 30, 2012, our debt is comprised of a loan agreement, secured by real property, which bears interest at a fixed rate of 6.5%. Additionally we have an unsecured loan agreement which bears interest at variable rates. As of April 30, 2012 there were no borrowings under our unsecured loan agreement.

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2013 to assess the impact of hypothetical changes in interest rates. Based upon the results of these analyses, a 10% adverse change in interest rates from the 2012 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for the next fiscal year.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level to ensure that the information required to be disclosed by us in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and instructions for Form 10-Q.

Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II**ITEM 1. LEGAL PROCEEDINGS**

The Company is not party to any material legal proceedings. From time to time, QAD is party, either as plaintiff or defendant, to various legal proceedings and claims which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors reported in Item 1A within the Company's Annual Report on Form 10-K for the year ended January 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchase activity during the three months reported ended April 30, 2012 was as follows:

Period	Shares Repurchased Class A	Average Price per Share Class A	Shares Repurchased Class B	Average Price per Share Class B	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan (1)
February 1 through February 29, 2012						
Shares repurchased	35,568	\$ 13.65	7,782	\$ 13.46	43,350	580,099
March 1 through March 31, 2012						
Shares repurchased	34,938	\$ 13.69	6,476	\$ 13.59	41,414	538,685
April 1 through April 30, 2012						
Shares repurchased	45,874	\$ 12.71	4,106	\$ 12.58	49,980	488,705
Total	<u>116,380</u>		<u>18,364</u>		<u>134,744</u>	<u>488,705</u>

- (1) On September 22, 2011, the Company announced a share repurchase plan. A total of one million shares may be repurchased under the plan. The plan may be suspended or discontinued at any time.

ITEM 6. EXHIBITSExhibits

10.1	Credit Agreement between the Registrant and Rabobank, N.A. effective as of May 30, 2012 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed on June 5, 2012)
10.2	Real Estate Term Loan Note between the Registrant and Rabobank, N.A. effective as of May 30, 2012 (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed on June 5, 2012)
10.3	Deed of Trust between the Registrant and Rabobank, N.A. effective as of May 30, 2012 (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed on June 5, 2012)
10.4	ISDA 2002 Master Agreement between the Registrant and Rabobank, N.A. effective as of May 30, 2012 (Incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K filed on June 5, 2012)

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10.5	ISDA Schedule to the 2002 Master Agreement between the Registrant and Rabobank, N.A. effective as of May 30, 2012 (Incorporated by reference to Exhibit 10.5 of the Registrant's Form 8-K filed on June 5, 2012)
10.6	Confirmation of a Swap Transaction between the Registrant and Rabobank, N.A. effective as of June 4, 2012 (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 8-K filed on June 5, 2012)
10.7	Share Purchase Agreement between the Registrant and Midmark Investors, L.P. and Midmark Capital, L.P., as the Shareholders of DynaSys, S.A. effective as of June 6, 2012
10.8	Escrow Agreement between the Registrant and Midmark Investors, L.P. and Midmark Capital, L.P. and McCarter & English, LLP effective as of June 6, 2012
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QAD Inc.
(Registrant)

Date: June 8, 2012

By: /s/ DANIEL LENDER
Daniel Lender
Executive Vice President, Chief Financial Officer
(on behalf of the Registrant)

By: /s/ KARA BELLAMY
Kara Bellamy
Senior Vice President, Corporate Controller
(Chief Accounting Officer)

SHARE PURCHASE AGREEMENT

By and Among

QAD IRELAND LTD., as the Buyer,

and

MIDMARK INVESTORS, L.P. and MIDMARK CAPITAL, L.P.,
as the Shareholders of DYNASYS, S.A.

Dated as of June 6, 2012

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DISCLOSURE SCHEDULE

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Section 3.19	-	Affiliate Transactions
Section 3.20	-	Absence of Material Changes or Events

SHARE PURCHASE AGREEMENT

This SHARE PURCHASE AGREEMENT (this "Agreement") is made as of June 6, 2012 by and among MIDMARK INVESTORS, L.P., a Delaware limited partnership, and MIDMARK CAPITAL, L.P., a Delaware limited partnership (each, a "Shareholder," and collectively, the "Shareholders"), and QAD IRELAND LTD., an Irish limited liability company registered with the Company Registration Office under number 281411 (the "Buyer").

WITNESSETH:

WHEREAS, the Shareholders own beneficially and of record all the issued and outstanding shares of capital stock of DynaSys, S.A., a French limited stock corporation (*société anonyme*), as set forth on Schedule 1 attached hereto (collectively, the "Shares");

WHEREAS, each Shareholder desires to sell to the Buyer, and the Buyer desires to purchase from each Shareholder, all of the issued and outstanding Shares owned by such Shareholder on the terms and conditions set forth herein; and

WHEREAS the Shareholders and the Buyer have signed a Confidential Letter of Intent on March 27, 2012 (as amended, the "Letter of Intent"), which emphasizes that (1) the parties agree to sell and to purchase all of the Shares for a total price of four million two hundred thousand Euro (€ 4,200,000), (2) the price is proposed and accepted if the conditions outlined in the Letter of Intent have been met, which conditions include the conclusion of due diligence by the Buyer with a positive result, (3) the conduct of business has taken place in the usual and ordinary manner with no extraordinary transaction and no material adverse change in the business, financial conditions, prospects, assets or operations of DynaSys, S.A. from the start of the 2012 calendar year.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter contained, and intending to be legally bound, the parties to this Agreement hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. For purposes of this Agreement, the following terms have the following meanings:

"Affiliate" – with respect to any Person, another Person that directly or indirectly, through one or more intermediaries, Controls, is Controlling, is Controlled by, or is under common Control with, such first Person, where "Control" (including the terms "Controlling," "Controlled by" and "under common Control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise; *provided*, that (a) any investment account advised or managed by such Person or one of its Subsidiaries or Affiliates on behalf of third parties, or (b) any partnership, limited liability company, or other similar investment vehicle or entity engaged in the business of making investments of which such Person acts as the general partner, managing member, manager, investment advisor, principal underwriter or the equivalent shall not be deemed an Affiliate of such Person.

“Affiliate Transaction” and “Affiliate Transactions” – as defined in Section 3.19.

“Applicable Contract” – any Contract (a) under which the Company has any rights, (b) under which the Company is subject to any obligation or liability, or (c) by which the Company or any of the assets owned or used by it is bound.

“Bonus Adjustment” – amount of bonuses paid after March 31, 2012 to any employee other than in the ordinary course of business, plus the Company’s share of additional Taxes payable as a result of such bonus, and the Petitgenet Bonus.

“Breach” – Breach of a representation, warranty, covenant, obligation, or other provision of this Agreement or any instrument delivered pursuant to this Agreement will be deemed to have occurred if there is or has been any inaccuracy in or breach of, or any failure to perform or comply with, such representation, warranty, covenant, obligation, or other provision, and the term “Breach” means any such inaccuracy, breach or failure.

“Buyer” – as defined in the Preamble.

“Buyer Closing Documents” – as defined in Section 5.2(a).

“Buyer Indemnified Persons” – as defined in Section 7.2.

“Cash Adjustment Amount” – as defined in Section 2.2.

“Closing” – as defined in Section 2.3.

“Closing Date” – as defined in Section 2.3.

“Company” – DynaSys S.A., a French limited stock corporation (*société anonyme à conseil d'administration*), with an address of 3 Allée de Stockholm, 67300 Schiltigheim, France, registered with the Chamber of Commerce in Strasbourg under number RCS Strasbourg B 334 915 782.

“Company’s Proprietary Rights” – as defined in Section 3.15(a).

“Consent” – any approval, consent, ratification, waiver, or other authorization (including any Governmental Authorization).

“Contemplated Transactions” – all of the transactions contemplated by this Agreement, including:

- (a) the sale, transfer and conveyance of the Shares by the Shareholders to the Buyer;
- (b) the execution, delivery, and performance of such other agreements contemplated hereby;

(c) the performance by the Buyer, the Company and the Shareholders of their respective covenants and obligations under this Agreement; and

(d) the Buyer's acquisition and ownership of the Shares.

"Contract" – any agreement, contract, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding.

"Damages" – as defined in Section 7.2.

"Disclosure Schedule" – the disclosure schedule delivered by the Company and/or the Shareholders to the Buyer concurrently with the execution and delivery of this Agreement.

"Encumbrance" – any charge, claim, community property interest, condition, mortgage, lien, option, pledge, hypothecation, security interest, right of first refusal, or other charge or restriction of any kind, including any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership, whether arising by contract or under law.

"Environmental Laws" – any and all France, United States or other nation's federal, state, or local laws, statutes, ordinances, rules, regulations, orders, or determinations of any Governmental Body pertaining to public health or safety, pollution, conservation, damage to or protection of, the environment.

"Environmental Permits" – licenses, permits, registrations, governmental approvals, agreements and consents which are required under or are issued pursuant to Environmental Laws.

"Escrow Agent" – as defined in the Escrow Agreement.

"Escrow Agreement" – the escrow agreement by and among the Buyer, the Shareholders and the Escrow Agent, substantially in the form attached hereto as Exhibit A.

"Escrow Amount" – as defined in Section 2.2(c).

"Financial Statements" – as defined in Section 3.4.

"French GAAP" – the generally accepted accounting principles in the French Republic, as in effect from time to time and applied consistently throughout the periods involved.

"Governmental Authorization" – any approval, consent, license, permit, waiver, or other authorization issued, granted, given, or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement.

"Governmental Body" – any:

- (a) nation, state, county, city, town, village, district, or other jurisdiction of any nature;
- (b) federal, state, local, municipal, foreign, or other government;

(c) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official, or entity and any court or other tribunal); or

(d) body exercising, or entitled to exercise, any self-regulatory, judicial, legislative, police, regulatory, or taxing authority or power of any nature.

“Indemnified Person” – as defined in Section 7.7(a).

“Indemnifying Person” – as defined in Section 7.7(a).

“Interim Balance Sheet” – as defined in Section 3.4(b).

“Interim Financial Statements” – as defined in Section 3.4(b).

“Knowledge” – the Company, a party to this Agreement or an individual will be deemed to have “Knowledge” of a particular fact or other matter if such person is actually aware of such fact or other matter or should have been aware of such fact or other matter.

“Leased Real Property” – as defined in Section 3.6(a)(i).

“Legal Requirement” – any federal, state, provincial, regional, local, municipal, foreign, or other governmental or self-regulatory constitution, treaty, law, statute, code, ordinance, regulation, order, decree, judgment or directive.

“Letter of Intent” – as defined in the Recitals.

“Material Adverse Effect” – a material adverse effect on the business, results of operations or financial condition of the Company, but excluding any such effects resulting from (i) this Agreement, the transactions contemplated hereby or the announcement thereof, (ii) any actions required under this Agreement to obtain any Consent from any Person or Governmental Body, (iii) changes in political or general economic conditions, including changes in commodities prices, interest rates or in any financial market, or the securities markets in general, (iv) acts of terrorism, war or other social or political disruptions, (v) changes, after the date of this Agreement, in conditions generally applicable to businesses in the same industry as the Company conducts its business generally, including (A) changes in laws or regulations generally applicable to such businesses or industry (or interpretations thereof) and (B) changes in French GAAP or its application, or (vi) a reduction of customers or decline in business of the Company occurring after the Closing of which the Company had received no notice prior to the Closing.

“Order” – any award, decision, injunction, judgment, order, ruling, subpoena, or verdict entered, issued, made, or rendered by any court, administrative agency, or other Governmental Body or by any arbitrator.

“Ordinary Course of Business” – an action taken by a Person will be deemed to have been taken in the “Ordinary Course of Business” only if:

(a) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person;

(b) such action is not required to be authorized by the board of directors of such Person (or by any Person or group of Persons exercising similar authority) and is not required to be specifically authorized by the parent company (if any) of such Person; and

(c) such action is similar in nature and magnitude to actions customarily taken, without any authorization by the board of directors (or by any Person or group of Persons exercising similar authority) or parent company (if any), in the ordinary course of the normal day-to-day operations of such Person.

“Organizational Documents” – with respect to any Person other than a natural person, the documents by which such Person was organized (such as a certificate of incorporation, certificate of limited partnership or articles of organization, and including, without limitation, any certificates of designation for preferred stock or other forms of preferred equity) and which relate to the internal governance of such Person (such as by-laws, a partnership agreement or an operating, limited liability company or members agreement), and any amendment to any of the foregoing.

“Person” – any individual, corporation (including any non-profit corporation), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or Governmental Body.

“Petitgenet Bonus” – as defined in Section 3.9(b).

“Pre-Closing Tax Period” – as defined in Section 7.2(d).

“Proceeding” – any action, arbitration, audit, hearing, investigation, litigation, or suit (whether civil, criminal, administrative, investigative, or informal) commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Body or arbitrator.

“Proprietary Rights” – (i) all patents and patent applications (including all provisional, divisions, continuations, continuations in part and reissues), patentable inventions, and business methods; (ii) all registered and unregistered fictional business names, trade names, trademarks, service marks and applications and registered domain names; (iii) registered and unregistered copyrights in both published works and unpublished works and copyrightable subject matter, including, but not limited to, software; (iv) all know-how, trade secrets, customer lists, confidential information, software, technical information, data, process technology, plans, drawings and blueprints; and (v) all other intellectual or industrial property rights, including, but not limited to database rights and model rights.

“Purchase Price” – as defined in Section 2.2.

“Representative” – with respect to a particular Person, any director, officer, shareholder, member, manager, employee, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

“Shares” – as defined in the Recitals.

“Shareholder” or “Shareholders” – as defined in the Preamble.

“Shareholder Closing Documents” – as defined in Section 4.2(a).

“Shareholder Indemnified Persons” – as defined in Section 7.3.

“Subsidiary” or “Subsidiaries” – with respect to any Person, any entity or entities Controlled by such Person. Any entity which is a Subsidiary of a Person is also a Subsidiary of that Person’s Controlling company.

“Tax” or “Taxes” – as defined in Section 3.8(a)(i).

“Taxable” – as defined in Section 3.8(a)(i).

“Taxing” – as defined in Section 3.8(a)(i).

“Tax Return” – as defined in Section 3.8(a)(ii).

“Threatened” – a claim, Proceeding, dispute, action, or other matter will be deemed to have been “Threatened” if any demand or statement has been made in writing or any notice has been given in writing.

1.2 Construction and Interpretation.

(a) The parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement.

(b) Each definition in this Agreement includes the singular and the plural, and references to any gender include the other genders where appropriate.

(c) Any reference to any federal, state, local, or foreign statute or law shall be deemed to also refer to all rules and regulations promulgated under such statute or law, unless the context requires otherwise. References to any statute or regulation mean such statute or regulation as amended at the time and include any successor legislation or regulation.

(d) The word “including” means “including without limitation.” The word “or” is not exclusive.

(e) References to Articles, Sections, Exhibits, Annexes and Schedules mean the Articles, Sections, Exhibits, Annexes and Schedules of this Agreement (unless otherwise indicated). The Exhibits, Annexes and Schedules (including the Disclosure Schedule) are incorporated by reference into and shall be deemed a part of this Agreement.

(f) The captions appearing herein are for the convenience of the parties only and shall not be construed to affect the meaning of the provisions of this Agreement.

(g) Any and all accounting terms utilized in this Agreement shall, unless the context otherwise requires, be construed in accordance with French GAAP.

(h) All references to “€” in this Agreement shall be references to Euros.

(i) In computing any time period provided for in this Agreement, the first day of the time period shall not be counted but the last day of the time period shall be counted. Any action required to be taken on a particular day must be taken before 5:00 p.m., (New York Time, on that day).

ARTICLE II

PURCHASE AND SALE OF SHARES; CLOSING

2.1 **Purchase and Sale of Shares.** Subject to the terms of this Agreement, at the Closing, each Shareholder severally agrees to sell to the Buyer, and the Buyer agrees to purchase from each such Shareholder, all of the Shares owned by such Shareholder as set forth opposite such Shareholder’s name on Schedule 1 hereto for the purchase price set forth in Section 2.2 below. Each Shareholder acknowledges and agrees that the number of Shares set forth opposite such Shareholder’s name on Schedule 1 is true and correct.

2.2 **Purchase Price and Method of Payment.** The aggregate purchase price for the Shares shall be an amount equal to (i) Four Million Two Hundred Thousand Euros (€4,200,000) plus (ii) One Million Eight Hundred Thousand Euros (€1,800,000) (the “Cash Adjustment Amount”), and minus (iii) the Bonus Adjustment (the “Purchase Price”). At Closing, the Purchase Price shall be payable as follows:

(a) Five Million Two Hundred Thousand Eight Hundred Fifty-Five Euros (€5,200,855) (minus its proportionate share of the Bonus Adjustment) to MidMark Investors, L.P.’s bank account indicated on Schedule 2 hereto;

(b) Two Hundred Ninety-Nine Thousand One Hundred Forty-Five Euros (€299,145) (minus its proportionate share of the Bonus Adjustment) to MidMark Capital, L.P.’s bank account indicated on Schedule 2 hereto; and

(c) Five Hundred Thousand Euros (€500,000) (the “Escrow Amount”) shall be paid to the Escrow Agent’s bank account indicated on Schedule 2 hereto, to hold in escrow pending disbursement in accordance with the terms of the Escrow Agreement.

2.3 **Closing.** Subject to the satisfaction or waiver of all of the conditions therefor contained in Article VI hereof, the purchase and sale (the “Closing”) provided for in this Agreement will take place at the offices of BMH Avocats 29, Rue de Faubourg Saint-Honoré, Paris 75008, France on the date hereof (the “Closing Date”), or at such other place or earlier or later date or time as the parties hereto may mutually agree. For financial, accounting and tax purposes, the Closing shall be deemed to have occurred as of 12:01 a.m. on the Closing Date or such other time and date as the parties hereto may mutually agree.

2.4 Closing Deliveries. At the Closing:

(a) The Shareholders will deliver or cause to be delivered to the Buyer:

(i) a share transfer certificate (*ordre de mouvement*), substantially in the form of Exhibit B, duly executed by each Shareholder evidencing the transfer of the ownership of the Shares to the Buyer;

(ii) one copy of the share transfer certificates, substantially in the form of Exhibit C, evidencing that each of the four directors of the Company has transferred to MidMark Capital, L.P. its one (1) Share prior to Closing;

(iii) three duly executed copies of the simplified French version of this Agreement (*acte reiteratif du contrat de cession*), substantially in the form of Exhibit D required for the Buyer to register the transfer of the Shares with the French Tax authorities;

(iv) counterparts to the Escrow Agreement, duly executed by the Shareholders and the Escrow Agent;

(v) a resignation, substantially in the form of Exhibit E, of any Person from the board of directors of the Company, any committees of the board of directors, and all other positions held by such Person with the Company prior to the Closing, such resignations to be effective subject to and with effect from Closing;

(vi) a certificate of the chief financial officer of the Company, substantially in the form of Exhibit F, which shall certify (1) the minutes of the board of directors of the Company having, in accordance with section 11 of the Company's articles of incorporation, approved the sale of the Shares by the Shareholders to the Buyer, and (2) the copy of the sole Organizational Document of the Company consisting of its articles of incorporation;

(vii) with respect to each Shareholder, a certificate of the Secretary of its general partner, substantially in the form of Exhibit G, which shall certify (1) the names of the general partner's officers who are authorized to sign the Shareholder Closing Documents, together with the true signatures of such officers, (2) the attached copy of the certificate of limited partnership of the applicable Shareholder and (3) the attached copies of the resolutions, duly adopted by the general partner's governing body, that will be in full force and effect at the time of delivery, authorizing the execution, delivery and performance of this Agreement and the Contemplated Transactions;

(viii) a receipt for the payment of the Purchase Price for each Shareholder, substantially in the form of Exhibit H;

(ix) a termination, substantially in the form of Exhibit I, of that Management Agreement dated as of November 29, 2002 between MidMark Investments, Inc. and the Company; and

(x) such other documents, instruments or certificates required to be delivered by the Shareholders at or prior to the Closing Date pursuant to this Agreement and such other matters as may be reasonably requested by Buyer in order to effectuate the intent of this Agreement.

(b) The Buyer will deliver or cause to be delivered to the Shareholders or to the Escrow Agent (as the case may be):

(i) the fractions of the Purchase Price set out in sections 2.2 (a) and 2.2 (b) hereof, delivered to the Shareholders by wire transfer of immediately available funds to the accounts specified on Schedule 2;

(ii) the Escrow Amount, pursuant to section 2.2 (c) hereof delivered to the Escrow Agent in the manner specified in the Escrow Agreement and to the account specified on Schedule 2;

(iii) counterparts to the Escrow Agreement, duly executed by the Buyer;

(iv) a certificate of the Secretary or an Assistant Secretary of the Buyer, substantially in the form of Exhibit J, which shall certify (1) the names of the officers of the Buyer authorized to sign the Buyer Closing Documents, together with the true signatures of such officers, (2) the attached copies of the Organizational Documents of the Buyer and (3) the attached copies of the resolutions, duly adopted by the Board of Directors of the Buyer, that will be in full force and effect at the time of delivery, authorizing the execution, delivery and performance of this Agreement and the Contemplated Transactions;

(v) one duly executed copy of the simplified French version of this Agreement (*acte reiteratif du contrat de cession*), substantially in the form of Exhibit D, required for the Buyer to register the transfer of the Shares with the French Tax authorities; and

(vi) such other documents, instruments or certificates required to be delivered by the Buyer at or prior to the Closing Date pursuant to this Agreement and such other matters as may be reasonably requested by the Shareholders in order to effectuate the intent of this Agreement.

All matters at the Closing will be considered to take place simultaneously, and no delivery of any document will be deemed complete until all transactions and deliveries of documents required by this Agreement are completed, and title to the Shares shall not be transferred and the Buyer shall have no property rights or interest in the Shares unless and until the Closing actually takes place and the Purchase Price has been effectively received.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SHAREHOLDERS REGARDING THE COMPANY

The Shareholders represent and warrant to the Buyer as follows:

3.1 **Organization and Good Standing; Power; Subsidiaries.**

(a) The Company is a limited stock corporation (*société anonyme*) duly organized, validly existing, and in good standing under the laws of the French Republic and has all requisite corporate power and corporate authority to conduct its business as it is now being conducted, and to own or use the properties and assets that it purports to own or use. The Company is duly qualified to conduct business and is in good standing under the laws of each jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification, except to the extent any failure to so qualify will not be reasonably likely to result in a Material Adverse Effect.

(b) The Company has delivered to the Buyer copies of the Organizational Documents of the Company, as currently in effect, and no amendments thereto are pending.

(c) The Company has no Subsidiaries and has no direct or indirect interest or investment (whether equity or debt) in any Person.

3.2 **Authority; No Conflict.**

(a) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions by the Shareholders will, directly or indirectly (with or without notice or lapse of time):

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company, the Company's board of directors having in accordance with section 11 of the Company's articles of incorporation, approved on May 29, 2012 the sale of the Shares by the Shareholders to the Buyer, or (B) any resolution adopted by the board of directors of the Company or the Shareholders;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company, or any of the assets or properties owned or used by the Company, may be subject;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by the Company or that otherwise relates to the business of, or any of the assets owned or used by, the Company;

(iv) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets or properties owned or used by the Company; or

(v) result in the breach of or constitute a default under any agreement to which the Company is a party.

(b) Except as set forth in Section 3.2(b) of the Disclosure Schedule, the Company is not or will not be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions, except such Consents as have been obtained prior to the Closing Date.

3.3 Capitalization. As of the date of this Agreement, the issued and outstanding equity securities of the Company consist of the shares of capital stock as set forth in Section 3.3 of the Disclosure Schedule. The Shares held by the Shareholders set forth in Section 3.3 of the Disclosure Schedule constitute all of the issued and outstanding capital stock and equity interests in the Company. All of the Shares have been validly issued, and none of the Shares was issued in violation of any applicable securities laws or any other Legal Requirement. As of the Closing Date there are no, statutory or contractual pre-emptive rights, rights of first refusal, anti-dilution rights or any similar rights held by any party with respect to the issuance of any equity securities of the Company. As of the date of this Agreement, there are no outstanding options, warrants, rights, subscriptions, or other rights of any kind to acquire any capital stock or other equity interest in the Company or any securities convertible into or exchangeable for, or which otherwise confer on the holder thereof any right to acquire, any such capital stock or other equity interest, nor is the Company committed to issue any such option, warrant, right or security. There are no agreements or understandings to which the Company is a party with respect to the voting of any Shares or which restrict the transfer of any Shares. The Company is not under any obligation by reason of any agreement to register the offer and sale or resale of the Shares or any other securities of the Company under the securities laws of any jurisdiction.

3.4 Financial Statements. The Company has delivered to the Buyer the following financial statements (collectively, the “Financial Statements”):

(a) (i) the audited balance sheets of the Company at and as of December 31, 2011 and 2010 and (ii) the related audited statements of income, changes in stockholders’ equity and cash flow for each of the two consecutive calendar years ended December 31, 2011; and

(b) (i) the unaudited balance sheet of the Company as of March 31, 2012 (the “Interim Balance Sheet”) and (ii) the related unaudited statement of income, changes in stockholders’ equity and cash flow for the three months ended March 31, 2012 (together with the Interim Balance Sheet, the “Interim Financial Statements”).

The Financial Statements are true, correct and complete in all material respects and have been prepared in conformity with French GAAP, consistently applied throughout the periods to which the Financial Statements relate. The Financial Statements fairly represent in all material respects the financial condition and results of operation of the Company. Section 3.4 of the Disclosure Schedule contains a copy of the audited financial statements as of December 31, 2011 referred to in paragraph (a) of this section.

3.5 Books and Records. All of the books of account, minute books, share register (*registre des mouvements de titres*) and shareholder accounts (*comptes d'actionnaires*), and other records of the Company have been made available for inspection to the Buyer. At the Closing, all books and records of the Company will be in the possession of the Company.

3.6 Real Property; Tangible Personal Property.

(a) Real Property.

(i) The Company does not own any real property. Section 3.6(a) of the Disclosure Schedule sets forth a list and description of all real properties and interests therein leased, subleased, or otherwise occupied or used by the Company (such property being hereinafter referred to as the "Leased Real Property"). All leases relating to the Leased Real Property are identified on Section 3.6(a) of the Disclosure Schedule and true and complete copies thereof have been delivered to the Buyer.

(ii) The Company is not a party to or bound by any contract or other agreement (including any option) for the purchase or sale of any real estate interest or any contract or other agreement for the lease to or from the Company of any real estate interest not currently in the possession of the Company.

(iii) Except as set forth on Section 3.6(a) of the Disclosure Schedule, the Company has good, valid and enforceable leasehold interests to the leasehold estate in the Leased Real Property, free and clear of all Encumbrances.

(iv) The Company has fulfilled all obligations under the leases related to the Leased Real Property which were required to be fulfilled by the Company prior to the Closing.

(b) Tangible Personal Property. Except as set forth on Section 3.6(b) of the Disclosure Schedule, and except with respect to leased personal property (as to which the Company has a valid leasehold interest), the Company has good and marketable title to all of its tangible personal property and assets shown on the Interim Balance Sheet and the audited balance sheet at and as of December 31, 2011, in each case free and clear of all Encumbrances. Except as set forth in Section 3.6(b) of the Disclosure Schedule, the Company leases or owns all tangible properties and assets necessary for the operation of its business as currently conducted. The Company has not received notice of any violation of, or default under, any Legal Requirement or contractual requirement relating to its owned or leased tangible properties and assets which remains uncured or has not been dismissed. All leases and licenses pursuant to which the Company leases or licenses tangible property from others are in good standing, valid, and effective in accordance with their respective terms, and there is not, with respect to the Company, and to the Company's Knowledge with respect to any other party, under any of such leases or licenses, any existing material default or event of default (or event which with notice or lapse of time, or both, would constitute a material default, or would constitute a basis for a claim of force majeure or other claim of excusable delay or non-performance).

3.7 Condition of Assets. Except as otherwise may be disclosed on the Disclosure Schedule, the assets used by the Company in the conduct of its business are in good operating condition and repair, and are adequate for the uses to which they are being put, and none of such assets is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that are not material in nature or cost.

3.8 Tax Matters.

(a) For purposes of this Agreement:

(i) “Tax” (or “Taxes” or “Taxable” or “Taxing” where the context requires) means any France, United States or other nation’s federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding based on wages, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax or levy of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not and including any obligations to indemnify or otherwise assume or succeed to the Tax liability of any other person.

(ii) “Tax Return” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

(b) Except as set forth in Section 3.8(b) of the Disclosure Schedule:

(i) All Tax Returns required to be filed by or on behalf of the Company (including any combined, consolidated or unitary group of which the Company is or was a member prior to the Closing Date), either have been properly prepared and duly and timely filed with all appropriate Taxing authorities or, if not filed, applicable penalties and interest caused by such failure to file have been paid or accrued for. All such Tax Returns were true, complete and correct in all material respects. All Taxes payable by or on behalf of the Company, either directly, as part of the consolidated, combined or unitary Tax Return of another taxpayer, or otherwise, have been fully and timely paid.

(ii) No claim has been made to the Company by a Taxing authority in a jurisdiction where the Company does not file a Tax Return such that it is or may be subject to Tax by that jurisdiction.

(iii) There are no other audits or investigations by any Taxing authorities in progress, nor has the Company received any notices from any Taxing authority that it intends to conduct such an audit or investigation.

3.9 Employees and Employee Benefit Plans.

(a) Section 3.9(a) of the Disclosure Schedule contains a true and complete list of the following information for each employee of the Company, including each employee on leave of absence or layoff status: name; job title; part-time or full-time status; and current compensation paid or payable. Additionally, Section 3.9(a) of the Disclosure Schedule contains a true and complete list of each bonus, deferred compensation, incentive compensation, stock purchase, stock option, severance or termination pay, hospitalization or other medical, life, or other insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement, or arrangement, and each other employee benefit plan, program, agreement, or arrangement, sponsored, maintained, or contributed to or required to be contributed to by the Company or by any trade or business. Section 3.9(a) of the Disclosure Schedule identifies each of the benefit plans that is an “employee welfare benefit plan” or “employee pension benefit plan.”

(b) The Company has agreed to pay Thierry Petitgenet, the Chief Financial Officer of the Company, a cash bonus of €27,400 (comprised of €18,900 of gross salary plus €8,500 Taxes) (the “Petitgenet Bonus”) within the one month period following the Closing in accordance with the Company’s ordinary payroll practices. Except for the Petitgenet Bonus and as set forth in Section 3.9(b) of the Disclosure Schedule, the Company does not owe any money to any employee with the exception of the payments due in the normal course of the work relation which have not yet fallen due. The Company is not engaged with any employee in an employment contract which includes provisions in conflict with French Labour laws. Except as set forth in Section 3.9(b) of the Disclosure Schedule, the Company has properly prepared and duly and timely filed with all appropriate Social authorities (*Législation sur le Travail, Médecine du Travail, Hygiène et Sécurité*) all the necessary declarations. All National Insurance Contributions (*cotisations de sécurité sociale*) have been paid.

3.10 Compliance with Legal Requirements; Governmental Authorizations.

(a) Except as set forth on Section 3.10(a) of the Disclosure Schedule:

(i) The Company is in material compliance with each Legal Requirement that is applicable to it and is material to the conduct or operation of its business or the ownership or use of any of its assets or properties;

(ii) no event has occurred or circumstance exists that (with or without notice or lapse of time) may constitute or result in a violation by the Company of, or a failure on the part of the Company to comply with, any Legal Requirement;

(iii) the Company has not received, at any time since January 1, 2009, any written notice or other written communication from any Governmental Body or any other Person regarding: (A) any actual, alleged, possible, or potential violation of, or failure to comply with, any Legal Requirement; or (B) any actual, alleged, possible, or potential obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature; and

(iv) The Company has all Governmental Authorizations necessary to permit the Company to lawfully conduct and operate its business in the manner it currently conducts and operates such business and to permit the Company to own and use its assets and properties in the manner in which it currently owns and uses such assets and properties.

3.11 Legal Proceedings; Orders. There is no pending Proceeding or Order:

(i) that has been commenced by or against the Company or that, to the Knowledge of the Company, otherwise relates to or may affect the business of, or any of the assets or properties owned or used by, the Company; or

(ii) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions.

3.12 Restrictive Contracts. Neither the Company nor any officer, member of the board of directors nor, to the Knowledge of the Company, any agent, employee, consultant, or contractor of the Company is bound by any Applicable Contract that purports to limit the ability of the Company or such officer, member of the board of directors, agent, employee, consultant, or contractor to engage in or continue any conduct, activity, or practice relating to the business of the Company.

3.13 Insurance.

(a) The Company has made available for inspection by the Buyer:

(i) true and complete copies of all policies of insurance to which the Company is a party or under which the Company is covered on the date of this Agreement; and

(ii) true and complete copies of all pending applications for policies of insurance relating to the Company.

(b) All policies to which the Company is a party or that provide coverage to the Company or any member of the board of directors or officer of the Company are valid, outstanding, and enforceable.

(c) The Company has not received:

(i) any written refusal of coverage or any written notice that a defense will be afforded with reservation of rights concerning any pending or outstanding claims involving the Company or any of its assets or operations; or

(ii) any written notice of cancellation that any insurance policy covering the Company or any of its assets or operations is no longer in full force or effect or will not be renewed or that the issuer of any policy is not willing or able to perform its obligations thereunder.

(d) The Company has paid all premiums due, and has otherwise performed all of its obligations, under each policy to which the Company is a party or that provides coverage to the Company.

3.14 [Reserved.]

3.15 Intellectual Property.

(a) Section 3.15(a) of the Disclosure Schedule contains a complete and correct list and brief description of all material Proprietary Rights owned by the Company (the “Company’s Proprietary Rights”). The Company owns the entire right, title and interest in and to all of the Company’s Proprietary Rights.

(b) Except as disclosed in Section 3.15(b) of the Disclosure Schedule, the Company has not granted to any other Persons or businesses the right to use any of the Company’s Proprietary Rights, and no Persons or businesses has ever attempted to restrain the Company from using any of the Company’s Proprietary Rights.

(c) The Company does not use any patent, trademark or other intellectual property right belonging to any third party without authorization.

(d) The Company has the right to use the names, service marks, trademarks and other Proprietary Rights material to the conduct of its business. The Company’s use of its Proprietary Rights has not infringed upon the intellectual property rights of any third party.

(e) There is no Proceeding pending or, to the Knowledge of the Company, threatened, which challenges the legality, validity, use or ownership of any of the Company’s Proprietary Rights.

(f) The Company’s Proprietary Rights are being sold to the Buyer with the Shares and the Purchase Price shall constitute all of the consideration being paid for the Shares and the Company’s Proprietary Rights.

3.16 Environmental Matters. The Company is in material compliance with Environmental Laws, except for such noncompliance as would not, individually or in the aggregate, have a Material Adverse Effect. The Company has not received any written notice, report or other information from any Governmental Body having judicial, regulatory or administrative authority under Environmental Laws regarding any actual or alleged material violation of Environmental Laws, or any material liabilities or potential material liabilities (whether accrued, absolute, contingent, unliquidated or otherwise), including any investigatory, remedial or corrective obligations, relating to the Company or its Leased Real Property arising under Environmental Laws, the subject of which would have a Material Adverse Effect. The Company possesses all Environmental Permits which are required for the operation of its business and is in compliance with the provisions of all such Environmental Permits, except to the extent the failure to possess or comply with an Environmental Permit would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Copies of all Environmental Permits issued to the Company have been provided to the Buyer.

3.17 Product Quality. All products and services designed, manufactured, marketed or sold by the Company are in compliance with applicable legal requirements, and generally applied technical standards. These products observe the applicable regulations with respect to the protection of the Environment.

3.18 Brokers or Finders. Except for the fees payable to Bulger Capital Partners, which fees shall be borne solely by the Shareholders, the Company and its agents have not incurred any obligation or liability, contingent or otherwise, for any investment banking, brokerage or finders' fees, commissions, or any other similar payment in connection with this Agreement.

3.19 Affiliate Transactions. Schedule 3.19 of the Disclosure Schedule sets forth a correct and complete list of all Contracts in existence between the Company, on the one hand, and any Shareholder, any Affiliate of any Shareholder or any business or entity in which any Shareholder or any Affiliate of any Shareholder, have any direct or indirect interest (other than the Company or other than ownership of publicly traded securities), on the other hand (each, an "Affiliate Transaction"), and together the "Affiliate Transactions"). Except as set forth in Section 3.19 of the Disclosure Schedule, all such arrangements or transactions shall be terminated effective as of the Closing.

3.20 Absence of Material Changes or Events. Except as set forth in Schedule 3.20 of the Disclosure Schedule or as contemplated by this Agreement, since January 13, 2012:

- (a) there has not occurred a Material Adverse Effect;
- (b) the Company has not operated its business other than in the Ordinary Course of Business;
- (c) the Company has not declared, set aside, accrued or paid any dividends, stock splits or distributions on its capital stock or, directly or indirectly, purchased, redeemed, or otherwise acquired or disposed of any shares of its capital stock;
- (d) the Company has not (i) incurred any liability or obligation under any Contract or otherwise, except current liabilities entered into or incurred in the Ordinary Course of Business, (ii) issued any notes or other debt securities or (iii) mortgaged, pledged or subjected to any Encumbrance any of its assets or properties;
- (e) except in the Ordinary Course of Business, the Company has not effected any increase in salary, wages, or other compensation of any kind, whether current or deferred, to any officer, employee, or agent of the Company, or made any bonus, pension, option, deferred compensation, or retirement payment, severance, profit sharing, or like payment (except as required by the terms of plans or arrangements existing prior to such date);
- (f) there have been no transfers of assets of the Company other than in the Ordinary Course of Business; and
- (g) there has been no strikes or protests or threats thereof by the Company's employees.

ARTICLE IV

SEVERAL REPRESENTATIONS AND WARRANTIES OF THE SHAREHOLDERS

Each Shareholder hereby severally, and not jointly, represents and warrants as to itself to the Buyer as follows:

4.1 **Organization.** Such Shareholder is validly existing and in good standing under the laws of its jurisdiction of organization.

4.2 **Authority; No Conflict.**

(a) The execution and delivery by such Shareholder of this Agreement and the other agreements, certificates, instruments and other documents executed and delivered by such Shareholder pursuant to this Agreement (collectively, the "Shareholder Closing Documents"), the performance of such Shareholder's obligations hereunder and thereunder and the consummation of the Contemplated Transactions have been duly and validly approved by all necessary partnership or other relevant action of such Shareholder, and no other proceedings on the part of such Shareholder are necessary to authorize the execution and delivery of the Shareholder Closing Documents and the consummation by such Shareholder of the Contemplated Transactions. This Agreement constitutes the legal, valid and binding obligation of such Shareholder, enforceable against the Shareholder in accordance with its terms, except insofar as enforcement may be limited by United States bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors' rights. Upon the execution and delivery by such Shareholder of the Shareholder Closing Documents, the Shareholder Closing Documents will constitute the legal, valid and binding obligations of the Shareholder in accordance with their respective terms, except insofar as enforcement may be limited by United States bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors' rights.

(b) Neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions by such Shareholder will, directly or indirectly (with or without notice or lapse of time),

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of such Shareholder, or (B) any resolution adopted by the governing body or partners of such Shareholder;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which such Shareholder, or any of the assets or properties owned by such Shareholder, may be subject; or

(iii) result in the imposition or creation of any Encumbrance upon or with respect to any of the assets or properties of such Shareholder.

4.3 **Shares.** Such Shareholder as of the date of this Agreement is the record and beneficial owner of the Shares set forth opposite such Shareholder's name on Schedule 1 attached hereto. Such Shares are, and when delivered by such Shareholder to the Buyer pursuant to this Agreement will be, free and clear of any and all Encumbrances, other than Encumbrances created by the Buyer.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

The Buyer represents and warrants to the Company and the Shareholders as follows:

5.1 **Organization And Good Standing.** The Buyer is an Irish limited liability company duly organized, validly existing, and in good standing under the laws of Ireland.

5.2 **Authority; No Conflict.**

(a) The execution and delivery by the Buyer of this Agreement and the other agreements, certificates, instruments and other documents contemplated hereby (collectively, the “Buyer Closing Documents”), the performance of its obligations hereunder and thereunder and the consummation of the Contemplated Transactions have been duly and validly approved by the board of directors or other governing body of the Buyer, and no other proceedings on the part of the Buyer are necessary to authorize the execution and delivery of the Buyer Closing Documents and the consummation by the Buyer of the Contemplated Transactions. This Agreement constitutes the legal, valid, and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms, except insofar as enforcement may be limited by bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors’ rights. Upon the execution and delivery by the Buyer of the Buyer Closing Documents, the Buyer Closing Documents will constitute the legal, valid, and binding obligations of the Buyer, enforceable against the Buyer in accordance with their respective terms, except insofar as enforcement may be limited by bankruptcy, insolvency, or other laws affecting generally the enforceability of creditors’ rights. The Buyer has the absolute and unrestricted right, power, authority and capacity to execute and deliver this Agreement and the other Buyer Closing Documents and to perform its obligations under this Agreement and the other Buyer Closing Documents.

(b) Neither the execution and delivery of this Agreement by the Buyer nor the consummation or performance of any of the Contemplated Transactions by the Buyer will:

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Buyer, or (B) any resolution adopted by the board of directors or the stockholders of the Buyer;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Body or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Buyer may be subject;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate, or modify, any Governmental Authorization that is held by the Buyer or that otherwise relates to the business of, or any of the assets owned or used by, the Buyer; or

(iv) contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any contract, commitment or agreement to which the Buyer is bound or affected.

(c) The Buyer is not and will not be required to give notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions, except such Consents as have been obtained prior to the date hereof.

5.3 Certain Proceedings. There is no pending Proceeding that has been commenced against the Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To the Buyer's Knowledge, no such Proceeding has been Threatened, and no event has occurred and no circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

5.4 Brokers or Finders. The Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees, agents' commissions, or any other similar payment in connection with this Agreement.

5.5 Due Diligence. The Buyer has had an opportunity to discuss the Company's business, management and financial affairs with directors, officers and management of the Company and has had the opportunity to review the Company's operations and facilities.

5.6 Investigation. In connection with Buyer's investigation of the Company, the Buyer has received from or on behalf of the Company certain projections, including projected statements of operating revenues and income from operations of the Company and certain business plan information of the Company, which have been prepared in good faith. The Buyer acknowledges that there are uncertainties inherent in attempting to make such estimates, projections and other forecasts and plans and that the Buyer is familiar with such uncertainties, and that the Buyer is taking full responsibility for making its own evaluation of the adequacy and accuracy of all estimates, projections and other forecasts and plans so furnished to it (including the reasonableness of the assumptions underlying such estimates, projections and forecasts). The Buyer acknowledges and agrees that such estimates, projections and other forecasts and plans are not guarantees of future performance and that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in such estimates, projections and other forecasts and plans.

5.7 Financing. At Closing, the Buyer will have sufficient funds to pay the Purchase Price and all fees and expenses associated with the Contemplated Transactions required to be paid by it.

ARTICLE VI

CONDITIONS TO CONSUMMATION OF CONTEMPLATED TRANSACTIONS

6.1 Conditions to Each Party's Obligations to Consummate the Contemplated Transactions. The respective obligations of each party to consummate the Contemplated Transactions is subject to the satisfaction or waiver of the following conditions on or before the Closing Date:

(a) No Legal Requirement or Order shall have been enacted, entered, promulgated, enforced or threatened by any court or Governmental Body, which prohibits or restricts the consummation of the Contemplated Transactions; and

(b) All Consents required to be obtained from, and notices and filings required to be given to or made with, any Person to consummate the Contemplated Transactions, including, but not limited to, all of such Consents identified on Schedule 3.2(b) of the Disclosure Schedule, shall have been obtained, given or made, except where the failure to obtain such Consent or to provide such notice will not, individually or in the aggregate, be reasonably likely to result in a Material Adverse Effect.

6.2 Further Conditions to the Shareholders' Obligations to Consummate the Contemplated Transactions. The obligations of the Shareholders to consummate the Contemplated Transactions are further subject to satisfaction or waiver by the Shareholders of the following conditions on or before the Closing Date:

(a) The representations and warranties of Buyer contained herein shall be true and correct in all respects as of the date of this Agreement and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date (other than representations and warranties which address matters only as of a certain date, which shall be true and correct as of such certain date);

(b) Buyer shall have performed and complied in all respects with all agreements, obligations, covenants and conditions required by this Agreement to be performed or complied with by it on or prior to the Closing;

(c) The Buyer shall have delivered each of the items identified in Section 2.4(b) hereof;

(d) All actions taken by Buyer in connection with the consummation of the Contemplated Transactions and all certificates, instruments and other documents required to effect the Contemplated Transactions will be reasonably satisfactory in form and substance to the Shareholders.

6.3 Further Conditions to Buyer's Obligation to Consummate the Contemplated Transactions. The obligation of Buyer to consummate the Contemplated Transactions is further subject to the satisfaction or waiver of the following conditions:

(a) The representations and warranties of the Shareholders contained herein shall be true and correct in all respects as of the date of this Agreement and at and as of the Closing Date as though such representations and warranties were made at and as of the Closing Date (other than representations and warranties which address matters only as of a certain date, which shall be true and correct as of such certain date);

(b) The Shareholders shall have performed and complied in all respects with all agreements, obligations, covenants and conditions required by this Agreement to be performed or complied with by them on or prior to the Closing);

(c) There shall not have occurred any Material Adverse Effect with respect to the Company;

(d) The Affiliate Transactions shall have been terminated as provided in Section 3.19 hereof;

(e) All of the Shares shall be free and clear of all Encumbrances;

(f) The Shareholders shall have delivered each of the items identified in Section 2.4(a) hereof; and

(g) All actions to be taken by the Shareholders and the Company in connection with the consummation of the Contemplated Transactions and all certificates, instruments and other documents required to effect the Contemplated Transactions will be reasonably satisfactory in form and substance to the Buyer.

ARTICLE VII

INDEMNIFICATION; REMEDIES

7.1 Survival. All representations, warranties, covenants, and obligations in this Agreement, the Disclosure Schedule, and any other agreement, instrument, certificate or document delivered pursuant to this Agreement will survive the Closing until the six (6) month anniversary of the Closing Date with the exception of the items under 7.2 (e) and 7.2 (f) for which the warranties shall survive the Closing until the one (1) year anniversary of the Closing Date, whereupon all such representations, warranties, covenants and obligations, and all indemnifications rights relating thereto, shall expire and terminate and shall be of no further force or effect, except that the representations set out in Section 3.1 (Organization and Good Standing; Subsidiaries), Section 3.2 (Authority; No Conflict) and Section 3.3 (Capitalization), and the breach of any other representation or warranty in this Agreement as the result of fraud or willful misconduct shall survive until the fifth year anniversary of the Closing Date.

7.2 Several Indemnification and Payment of Damages by the Shareholders. The Shareholders agree, subject to the other terms and conditions of this Agreement, to severally, in accordance with their pro rata indemnification participation set forth on Schedule 1 hereto, indemnify and hold harmless the Buyer and its officers and directors (collectively, the "Buyer Indemnified Persons") for, and will pay to the Buyer Indemnified Persons the amount of any demonstrated out-of-pocket losses (collectively, "Damages"), caused by and attributable to:

- (a) any Breach of any representation or warranty made by such Shareholder or the Company in this Agreement, the Disclosure Schedule, or any other agreement, instrument, certificate or document delivered by such Shareholder or the Company pursuant to this Agreement;
- (b) any Breach by the Company of any covenant or obligation of the Company in this Agreement;
- (c) any claim by any Person for brokerage, finder's or legal fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with the Company (or any Person acting on its behalf) in connection with any of the Contemplated Transactions;
- (d) (A) all Taxes (including, as indicated in Section 3.8(a), payroll taxes and social security contributions) or the non-payment or non-declaration thereof of the Company for all Taxable periods ending on or before the Closing Date ("Pre-Closing Tax Period") and (B) any and all Taxes of any Person (other than the Company) imposed on the Company as a transferee or successor, by contract or pursuant to any law, rule or regulation, which Taxes relate to an event or transaction occurring before the Closing;
- (e) any claim by an employee of the Company or Governmental Body based on the Working Time Directive in France to the extent related to events occurring or acts or omissions by the Company prior to the Closing Date;
- (f) any reduction or elimination of French research and development tax credits provided to the Company with respect to the Pre-Closing Tax Period.

7.3 Indemnification and Payment of Damages by Buyer. The Buyer will indemnify and hold harmless the Shareholders and their Representatives (collectively, the "Shareholder Indemnified Persons") for, and will pay to the Shareholder Indemnified Persons the amount of any Damages caused by and attributable to:

- (a) any Breach of any representation or warranty made by the Buyer in this Agreement or in any agreement, instrument, certificate or document delivered by the Buyer pursuant to this Agreement;
- (b) any Breach by the Buyer of any covenant or obligation of the Buyer in this Agreement; or
- (c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with the Buyer (or any Person acting on its behalf) in connection with any of the Contemplated Transactions.

7.4 Time Limitations. Except with respect to such representations and warranties which survive for the applicable statute of limitations pursuant to Section 7.1, the Shareholders will have no liability (for indemnification or otherwise) pursuant to this Article VII unless on or before the sixth (6) month anniversary of the Closing Date (or the first annual anniversary of the Closing Date in the case of indemnification claims under Section 7.2(e) and Section 7.2(f)) the Buyer notifies the Shareholders of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by the Buyer. The Buyer will have no liability (for indemnification or otherwise) pursuant to this Article VII unless on or before the sixth (6) month anniversary of the Closing Date the Shareholders notify the Buyer of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by the Shareholders.

7.5 Limitations on Amount – Shareholders; Source of Indemnification Payments by Shareholders.

(a) The Shareholders will have no liability (for indemnification or otherwise) with respect to the matters described in Section 7.2, absent fraud or willful misconduct, until the total of all Damages with respect to such matters exceeds €100,000, after which the Shareholders will be liable for the excess of all Damages above €100,000 up to but not to exceed €840,000. However, the parties agree that the €100,000 threshold shall not apply in relation to claims related to the warranties outlined under 7.2 (c), 7.2 (e) and 7.2 (f). The aggregate amount of all Damages for which Buyer Indemnified Persons shall be entitled to be indemnified under this Article VII shall not exceed €840,000. Except in connection with a breach of a representation or warranty of a Shareholder made in Article IV hereof, in which case the breaching Shareholder shall bear the entire indemnification liability with respect to such breach, in no event shall any Shareholder be obligated to indemnify a Buyer Indemnified Person for any Damages pursuant to this Article VII in excess of such Shareholder's pro rata portion of such Damages, which pro rata portion shall be determined in accordance with such Shareholder's pro rata indemnification participation as set forth on Schedule 1 hereto, nor shall any Shareholder be obligated to indemnify a Buyer Indemnified Person for any Damages pursuant to this Article VII for any Damages attributable to a breach of this Agreement by any other Shareholder (including a breach of a representation or warranty made by such Shareholder pursuant to Article IV).

(b) Any indemnification payments to which a Buyer Indemnified Person is entitled under this Article VII shall be satisfied first from the Escrow Amount pursuant to the terms of the Escrow Agreement and, secondly, if the Escrow Amount shall be insufficient to satisfy such indemnification payments, by collecting directly from the Shareholders. All such indemnification payments shall be deemed an adjustment to the Purchase Price.

7.6 Limitations on Amount – Buyer. The Buyer will have no liability (for indemnification or otherwise) with respect to the matters described in Section 7.3, absent fraud or willful misconduct, until the total of all Damages with respect to such matters exceeds €100,000, after which the Buyer will be liable for the excess of all Damages above €100,000. The aggregate amount of all Damages for breaches of representations and warranties, covenants or obligations for which Shareholder Indemnified Persons shall be entitled to be indemnified under this Article VII shall not exceed €840,000.

7.7 Procedure For Indemnification – Third Party Claims.

(a) Promptly after receipt by a party seeking indemnification under Sections 7.2 or 7.3 (the “Indemnified Person”), of notice of the commencement of any Proceeding against it or the Company, such Indemnified Person will, if a claim is to be made against a party providing indemnification under such Sections (the “Indemnifying Person”), give notice to the Indemnifying Person of the commencement of such claim, but the failure to notify the Indemnifying Person will not relieve the Indemnifying Person of any liability that it may have to any Indemnified Person, except to the extent that the Indemnifying Person demonstrates that the defense of such action is actually and materially prejudiced by the Indemnified Person’s failure to give such notice.

(b) If any Proceeding referred to in Section 7.7(a) is brought against an Indemnified Person and it gives notice to the Indemnifying Person of the commencement of such Proceeding, the Indemnifying Person will, unless the claim involves Taxes or social security matters, be entitled to participate at its own costs in such Proceeding and, to the extent that it wishes (unless (i) the Indemnifying Person is also a party to such Proceeding and the Indemnified Person determines in good faith that joint representation would be inappropriate, or (ii) the Indemnifying Person fails to provide reasonable assurance to the Indemnified Person of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding), to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnified Person and, after notice from the Indemnifying Person to the Indemnified Person of its election to assume the defense of such Proceeding, the Indemnifying Person will not, as long as it diligently conducts such defense, be liable to the Indemnified Person under this Article VII for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the Indemnified Person in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the Indemnifying Person assumes the defense of a Proceeding: (i) no compromise or settlement of such claims may be effected by the Indemnifying Person without the Indemnified Person’s consent which will not be unreasonably withheld unless (A) there is no finding or admission of any violation of Legal Requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Person, and (B) the sole relief provided is monetary damages that are paid in full by the Indemnifying Person; and (ii) the Indemnified Person will have no liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an Indemnifying Person of the commencement of any Proceeding and the Indemnifying Person does not, within thirty days after the Indemnified Person’s notice is given, give notice to the Indemnified Person of its election to assume the defense of such Proceeding, the Indemnifying Person will be bound by any determination made in such Proceeding or any compromise or settlement effected by the Indemnified Person, unless the claim involves Taxes, in which case any such compromise or settlement shall require such Indemnifying Person’s prior consent, which will not be unreasonably withheld.

7.8 Procedure for Indemnification – Other Claims. A claim for indemnification for any matter not involving a third-party claim may be asserted by written notice to the party from whom indemnification is sought.

7.9 Mitigation of Damages. An Indemnified Person's rights to indemnification under this Agreement are subject to civil law principles of mitigation. However, no Indemnified Person will be required to exhaust any remedy against any other Person or source (for example, under an insurance policy) as a condition to pursuing or obtaining any indemnification under this Agreement. The Indemnified Person will, at the Indemnifying Person's written request, take commercially reasonable steps to mitigate Damages after becoming aware of any event that would reasonably be expected to give rise to Damages for which indemnification may be sought under this Article VII; provided that any steps for which an Indemnified Person incurs any documented out-of-pocket costs will be at the Indemnifying Person's expense and funded by the Indemnifying Person on a current basis.

7.10 Insurance Proceeds. To the extent that any Damages are covered by insurance pursuant to which the Indemnified Person is an insured, the Indemnified Person shall be entitled to indemnification pursuant to this Agreement only with respect to the amount of the Damages in excess of the cash proceeds actually received by such Indemnified Person pursuant to such insurance and the Indemnified Person shall make a claim for such insurance in connection with the Damages, if in the ordinary course, consistent with past practice, it would do so in connection with the Damages. If such Indemnified Person receives such cash insurance proceeds prior to the time such Damages are paid by the Indemnifying Person, then the amount payable by the Indemnifying Person pursuant to such claim shall be reduced by the amount of such insurance proceeds. If such Indemnified Person receives such cash insurance proceeds after such Damages are paid by the Indemnifying Person, then upon the receipt by the Indemnified Person of any cash proceeds pursuant to such insurance, such Indemnified Person shall promptly repay to the Indemnifying Person any portion of the Damages which was previously paid by the Indemnifying Person to the Indemnified Person in satisfaction of the Damages.

7.11 Exclusive Remedy. Subject to Section 9.12 hereof, this Article VII will provide the exclusive legal remedy for the matters covered by this Article VII and any other claims relating to this Agreement and the transactions contemplated hereby, except for claims based upon fraud or willful misconduct.

ARTICLE VIII

COVENANTS OF THE PARTIES

8.1 Public Announcements. Any public announcement or similar publicity with respect to this Agreement or the Contemplated Transactions will be issued, if at all, at such time and in such manner as the Buyer and the Shareholders shall mutually agree upon, except as may otherwise be required by Legal Requirements. Unless consented to by each party in advance or required by Legal Requirements, prior to the Closing, all parties to this Agreement shall keep this Agreement strictly confidential and not make any disclosure of this Agreement to any Person. The Shareholders and the Buyer will consult with each other concerning the means by which the Company's employees, customers, and suppliers and others having dealings with the Company will be informed of the Contemplated Transactions, and the Buyer will have the right to be present for any such communication.

8.2 Non-Solicitation. Each Shareholder agrees that until the two (2) year anniversary of the Closing Date, it will not, without the prior written consent of the Buyer, (a) solicit or encourage any employee of the Company or the Buyer to terminate his employment and to become employed by the Shareholder or any Affiliate thereof or to enter into a business relationship with the Shareholder or any Affiliate thereof or (b) solicit any client or business relation of the Company to patronize any business that is in competition with the Company or request or advise any such Person to terminate its business relationship with the Company; provided, however, a general solicitation of employment that is not specifically targeted to the employees of the Company shall not be deemed a violation of this section.

8.3 Confidentiality.

(a) Each Shareholder agrees that it will not make use of, divulge or disclose to any third party any information of any proprietary, secret or confidential nature related to the Company, its business and property, or the Buyer, unless (i) such information was or becomes generally available to the public other than as a result of a disclosure by any Shareholder or any of its Affiliates or (ii) such information was or becomes available to the Shareholders on a non-confidential basis from a source other than from the Buyer or the Company and such source is not bound by a confidentiality obligation to the Buyer or the Company; *provided* that the Shareholders may disclose such information (A) to their Representatives to the extent those persons need to know such information in the course of performing services to the Shareholder or (B) as required by applicable Legal Requirement and/or in the event the Shareholder is legally compelled to disclose such information.

(b) The Buyer agrees that it will not make use of, divulge or disclose to any third party any information of any proprietary, secret or confidential nature related to each Shareholder, unless (i) such information was or becomes generally available to the public other than as a result of a disclosure by the Buyer or any of its Affiliates or (ii) such information was or becomes available to the Buyer on a non-confidential basis from a source other than from the Shareholders or the Company and such source is not bound by a confidentiality obligation to the Shareholders or the Company; *provided* that the Buyer may disclose such information (A) to its Representatives to the extent those persons need to know such information in the course of performing services to the Buyer or (B) as required by applicable Legal Requirement and/or in the event the Buyer is legally compelled to disclose such information.

8.4 Tax Indemnification. The indemnification obligations of the Shareholders with respect to Taxes are provided in Section 7.2(d) of this Agreement.

8.5 Certain Elections. From the date hereof through the Closing Date, neither the Company nor the Shareholders shall make or change any election with respect to Taxes, enter into any closing agreement, settle any claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, except with the prior consent of Buyer.

8.6 Sales and Transfer Taxes. The Buyer shall pay and shall hold the Shareholders harmless from and against all transfer Taxes, recording fees, stamp Taxes and other sales, transfer, use, excise, purchase and similar Taxes, if any, imposed in connection with or as a result of the acquisition of the Shares by the Buyer or the Contemplated Transactions.

8.7 Petitgenet Bonus. The Buyer shall cause the Company to pay the Petitgenet Bonus within the one month period following the Closing in accordance with the Company's ordinary payroll practices.

ARTICLE IX

GENERAL PROVISIONS

9.1 Expenses. Except as otherwise expressly provided in this Agreement, each of the Buyer, on the one hand, and the Shareholders (on behalf of the Company and the Shareholders) on the other hand, shall bear its own expenses incurred in connection with the preparation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants.

9.2 Notices. All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand or by nationally recognized overnight courier service, (b) sent by facsimile with confirmation of transmission by the transmitting equipment, or (c) received or rejected by the addressee, if sent by certified mail, return receipt requested, in each case to the appropriate addresses and facsimile numbers set forth below (or to such other addresses and facsimile numbers as a party may designate by notice to the other parties):

If to the Buyer, to:

QAD Ireland Ltd. at the address of QAD Europe B.V.
Beech Avenue 125
1119 RB Schiphol-Rijk, The Netherlands
Attention: EMEA Legal Counsel
Telephone: XXXXXXXXXXXX

With a copy to:

BMH Avocats
29, Rue de Faubourg Saint-Honoré
Paris 75008, France
Telephone: XXXXXXXXXXXX

or to such other Person or at such other place as the Buyer shall furnish to the Company and the Shareholders in writing; and

If to the Company, to:

DynaSys S.A.
c/o MidMark Investors, L.P.
177 Madison Avenue
Morristown, NJ 07960
Attention: Matthew Finlay
Telephone: XXXXXXXXXXXX
Fax: XXXXXXXXXXXX
Email: XXXXXXXXXXXX

Note: Certain personal and/or confidential information marked with Xs has been redacted.

with a copy to:

McCarter & English, LLP
Four Gateway Center
100 Mulberry Street
Newark, NJ 07101-0652
Attention: David F. Broderick, Esq.
Telephone: XXXXXXXXXXXX
Fax: XXXXXXXXXXXX
Email: XXXXXXXXXXXX

If to any Shareholder, to:

MidMark Investors, L.P.
MidMark Capital, L.P.
177 Madison Avenue
Morristown, NJ 07960
Attention: Matthew Finlay
Telephone: XXXXXXXXXXXX
Fax: XXXXXXXXXXXX
Email: XXXXXXXXXXXX

with a copy to:

McCarter & English, LLP
Four Gateway Center
100 Mulberry Street
Newark, NJ 07101-0652
Attention: David F. Broderick, Esq.
Telephone: XXXXXXXXXXXX
Fax: XXXXXXXXXXXX
Email: XXXXXXXXXXXX

and,

Marcus Partners SELAS
23, Rue Balzac
Paris 75008, France
Attention: Dr. Christoph Maurer
Telephone: XXXXXXXXXXXX
Fax: XXXXXXXXXXXX
Email: XXXXXXXXXXXX

or to such other Person or at such other place as the Company or any Shareholder of the Company shall furnish to the Buyer in writing.

9.3 Jurisdiction; Service of Process. Any action or proceeding seeking to enforce any provision of, or based on any right arising out of, this Agreement may be brought against any of the parties to the Commercial court of Paris, and each of the parties consents to the jurisdiction of such court (and of the appropriate appellate courts) in any such action or proceeding and waives any objection to venue laid therein. Process in any action or proceeding referred to in the preceding sentence may be served on any party anywhere in the world.

Note: Certain personal and/or confidential information marked with Xs has been redacted.

9.4 Further Assurances. The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other parties may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

9.5 Waiver. At any time prior to the Closing, the Buyer, on the one hand, and the Company or the Shareholders, on the other hand, may (a) extend the time for performance of any of the obligations or other acts of the other party hereto; (b) waive any inaccuracies in the representations and warranties of the other party contained herein or in any document delivered by the other party pursuant hereto or (c) waive compliance with any of the agreements of the other party or conditions to its own obligations contained herein. The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other party; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

9.6 Entire Agreement and Modification. This Agreement supersedes all prior agreements between the parties with respect to its subject matter, including the Letter of Intent, and constitutes (along with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.

9.7 Disclosure Schedule. In the event of any inconsistency between the statements in the body of this Agreement and those in the Disclosure Schedule (other than an exception expressly set forth as such in the Disclosure Schedule with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

9.8 Assignments, Successors, and No Third-Party Rights. No party may assign any of its rights under this Agreement without the prior written consent of the other parties hereto. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement any right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement and their successors and assigns.

9.9 Severability. If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

9.10 Headings. The headings of the Articles and Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references in this Agreement to “Article,” “Articles,” “Section,” or “Sections” refer to the corresponding Article, Articles, Section, or Sections, respectively, of this Agreement.

9.11 Governing Law. This Agreement shall be construed under and governed by the internal substantive laws of the French Republic, including validity, interpretation and effect without regard to principles of conflicts of law.

9.12 Specific Performance. The Buyer and the Shareholders recognize that any breach of the terms of this Agreement may give rise to irreparable harm for which money damages would not be an adequate remedy and, accordingly, agree that, in addition to the remedies available under Article VII, a non-breaching party to this Agreement shall be entitled to institute and prosecute proceedings in any court of competent jurisdiction to obtain specific performance or to enjoin the continuing breach of such provision, as well as to obtain damages for breach of this Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement in three (3) originals as of the date first written above.

SHAREHOLDERS:

MIDMARK INVESTORS, L.P.
a Delaware limited partnership

By: MidMark Associates II, LLC,
its general partner

By: /s/ Ariel Weil
Name: ARIEL WEIL
Title: MANAGING DIRECTOR

MIDMARK CAPITAL, L.P.
a Delaware limited partnership

By: MidMark Associates Inc.
its general partner

By: /s/ Ariel Weil
Name: ARIEL WEIL
Title: MANAGING DIRECTOR

BUYER:

QAD IRELAND LTD.

By: /s/ Peter Geddes
Name: PETER GEDDES
Title: DIRECTOR

Signature Page to Share Purchase Agreement

SCHEDULE 1

SHAREHOLDERS; COMPANY SHARES; PURCHASE PRICE ALLOCATION

<u>Name</u>	<u>Company Shares</u>	<u>Percentage Ownership</u>
MidMark Investors, L.P.	42,664	94.561%
MidMark Capital, L.P.	2,454	5.439%

SCHEDULE 2

WIRE TRANSFER INSTRUCTIONS

MidMark Investors, L.P.:

Intermediary bank	: XXXXXXXXXXXX
Swift code	: XXXXXXXXXXXX
Beneficiary bank	: XXXXXXXXXXXX
Swift code	: XXXXXXXXXXXX
Beneficiary name	: XXXXXXXXXXXX
Account	: XXXXXXXXXXXX
RefField 70	: XXXXXXXXXXXX
RefField 72	: XXXXXXXXXXXX

MidMark Capital, L.P.:

Intermediary bank	: XXXXXXXXXXXX
Swift code	: XXXXXXXXXXXX
Beneficiary bank	: XXXXXXXXXXXX
Swift code	: XXXXXXXXXXXX
Beneficiary name	: XXXXXXXXXXXX
Account	: XXXXXXXXXXXX
RefField 70	: XXXXXXXXXXXX
RefField 72	: XXXXXXXXXXXX

Escrow Agent:

Bank Account:	XXXXXXXXXXXX
	XXXXXXXXXXXX
Bank :	XXXXXXXXXXXX
ABA No.:	XXXXXXXXXXXX
Swift Code:	XXXXXXXXXXXX
Reference No.:	XXXXXXXXXXXX

Note: Certain personal and/or confidential information marked with Xs has been redacted.

ESCROW AGREEMENT

THIS ESCROW AGREEMENT (the “Agreement”) is made this 6th day of June, 2012, by and among MIDMARK INVESTORS, L.P., a Delaware limited partnership, and MIDMARK CAPITAL, L.P., a Delaware limited partnership (each, an “Shareholder” and collectively, the “Shareholders”), QAD IRELAND LTD., an Irish limited liability company (the “Purchaser”), and MCCARTER & ENGLISH, LLP, a New Jersey limited liability partnership (the “Escrow Agent”). The Purchaser and the Shareholders are sometimes referred to herein individually as a “Party” and collectively as the “Parties.”

Background

A. Pursuant to that certain Share Purchase Agreement dated as of June 6, 2012 (the “Purchase Agreement”) by and between the Purchaser and the Shareholders, the Purchaser has agreed to purchase all of the issued and outstanding shares of capital stock (the “Shares”) of DynaSys, S.A., a French limited stock corporation (*société anonyme*) (the “Company”), and the Shareholders have agreed to sell the Shares to the Purchaser in accordance with the terms of the Purchase Agreement. Sections 2.2(c) of the Purchase Agreement provides for Purchaser to pay the Escrow Amount (as defined below) to the Escrow Agent at Closing to be held in escrow in accordance with the terms of this Agreement. Capitalized terms used herein without definition shall be defined as set forth in the Purchase Agreement.

B. This Agreement is the Escrow Agreement referred to in the Purchase Agreement whereby the Parties and the Escrow Agent have set forth their agreements with respect to the holding and disbursement of the Escrow Amount.

NOW, THEREFORE, in consideration of the premises and of the transactions and payments set forth herein and in the Purchase Agreement, the parties hereto, each intending to be legally bound hereby, agree as follows:

1. **Appointment of Escrow Agent.** Shareholders and Purchaser hereby appoint the Escrow Agent to serve as escrow agent under the terms of this Agreement, and the Escrow Agent hereby accepts such appointment. Wherever this Agreement provides for a notice or instructions to be given by Purchaser, such notice shall be accepted by Escrow Agent if signed by an officer of Purchaser. Wherever this Agreement provides for a notice or instructions to be given by the Shareholders, such notice shall be accepted by Escrow Agent if signed by each Shareholder. Escrow Agent’s duties to the other parties hereto are limited to those set forth in this Escrow Agreement. Although Escrow Agent has been furnished with a copy of the Purchase Agreement solely for convenience of reference, Escrow Agent has no duties whatsoever with respect to the Purchase Agreement or compliance with any of the terms thereof; this Agreement is the sole instrument setting forth the duties and responsibilities of the Escrow Agent.

2. **Escrow Amount.**

2.1 **Amount.** Contemporaneously herewith, Purchaser have deposited in escrow with the Escrow Agent Five Hundred Thousand Euros (€500,000) (the “Escrow Amount”) pursuant to Section 2.2(c) of the Purchase Agreement. The Escrow Agent hereby acknowledges receipt thereof.

2.2 **Interest-Bearing Account.** The Escrow Agent shall deposit the Escrow Amounts in a federally insured, interest-bearing savings or money market account, or if so desired by the Shareholders, another account, at Wells Fargo Bank, N.A. (or another bank selected by the Escrow Agent) until disbursed as provided herein. All interest credited to the Escrow Amounts shall be for the account of the Shareholders (subject to the distribution adjustments described below).

3. **Disposition of Escrow Amounts.** Until the date for the release of the Escrow Amounts provided in Section 3.4 hereof, or for such longer periods as may be required in the event of a dispute as provided below, the Escrow Agent shall hold and disburse the Escrow Amounts as follows:

3.1 **Mutual Instructions.** At any time hereafter, the Parties may give Escrow Agent joint written instructions (signed by an authorized officer of Purchaser and each Shareholder) for disposition of the Escrow Amount or any portions thereof.

3.2 **Indemnification Claims.** In the event that Purchaser determines that it is entitled under the Purchase Agreement to any portion of the Escrow Amount due to any Damages suffered by Purchaser that are subject to indemnification by the Shareholders in accordance with the provisions of Article VII of the Purchase Agreement, Purchaser shall provide notice (the "Claim Notice") to Escrow Agent and the Shareholders of its claim against the Escrow Amount. The Claim Notice shall state (a) the amount of the claim, (b) that such amount is properly chargeable against the Escrow Amount under the terms hereof or of the Purchase Agreement, and (c) the basis, with reasonable specificity, of the underlying claim. Unless Escrow Agent receives a Disputed Claim Notice (as defined below) from the Shareholders within thirty (30) days after receipt of the Claim Notice, as provided in Section 3.3 below, the Escrow Agent shall deliver to Purchaser, out of the Escrow Amount, the amount specified in Purchaser's Claim Notice (but not to exceed the balance remaining of the Escrow Amount). Delivery of such payment shall be made by wire transfer or by check, delivered by nationally recognized overnight courier service, as soon as practicable after expiration of such 30-day period for submission of a Disputed Claim Notice.

3.3 **Dispute of Claim.** The Shareholders shall have the right to dispute a claim contained in the Claim Notice by delivering to Escrow Agent and to Purchaser written notice (a "Disputed Claim Notice"). The Disputed Claim Notice shall be delivered to Purchaser and Escrow Agent within thirty (30) days following the giving of the Claim Notice by Purchaser to the Shareholders. The Disputed Claim Notice shall state the basis, with reasonable specificity, of the Shareholders' dispute with respect to the validity or the amount of the claim in question. The Escrow Agent shall take no action with respect to the amount of the Escrow Amount in dispute (the "Disputed Amount") except:

3.3.1 Upon the joint written instructions of Purchaser, on the one hand, and the Shareholders, on the other hand; or

3.3.2 Upon joint written notice from Purchaser and the Shareholders that the dispute with respect to the Disputed Amount has been determined and resolved by a final non-appealable order, decree or judgment entered by a court of competent jurisdiction, which notice shall be accompanied by a certified copy of any such order, decision, decree or judgment.

If the date upon which a disbursement is to be made pursuant to Section 3.4 below shall have passed, then, upon notice in accordance with Sections 3.3.1 or 3.3.2 above, directing that all or any portion of the Disputed Amount be released to the Shareholders or the Purchaser, as the case may be, the Escrow Agent shall cause such amount to be delivered to the Shareholders or the Purchaser, as the case may be.

3.4 Release of Escrow Amount. The Escrow Agent is authorized by the Purchaser and the Shareholders to disburse the Escrow Amount to the Shareholders on December 6, 2012; provided that any portion of the Escrow Amount subject to an indemnification claim outstanding as of the date thereof pursuant to Article VII of the Purchase Agreement shall not be released until the final resolution of such claim. Notwithstanding the foregoing, the Escrow Agent shall not disburse (a) any portion of the Escrow Amount as to which Purchaser has given a Claim Notice less than thirty (30) days prior to the date of disbursement as provided for in this Section 3.4 (*i.e.*, as to which the time for submission of a Disputed Claim Notice has not yet expired); and (b) any Disputed Amounts (collectively, the “Withheld Amounts”). Subject to Section 4 below, the Withheld Amounts shall continue to be held hereunder by the Escrow Agent, and this Agreement shall continue in full force and effect with respect thereto until a final determination is made with respect thereto as provided in Section 3.3 above.

3.5 No Effect on Purchase Agreement. As between Purchaser and the Shareholders only, nothing in this Section 3 shall be deemed to modify the rights and obligations of Purchaser and the Shareholders under the Purchase Agreement; Purchaser and the Shareholders agree as between themselves to follow the procedures set forth therein with respect to the making of any claim for any Damages, or any request for disbursement of the Escrow Amount, and further agree that although the Escrow Agent shall have no responsibility for determining whether or not they have done so, any disagreement between the Parties as to whether such proper procedures have been followed shall be treated as a dispute for purposes of this Section 3 and shall be subject to resolution in accordance with the terms hereof.

4. Right to Interplead. If, after delivery of the copy of a Claim Notice, Escrow Agent receives a Disputed Claim Notice from the Shareholders within the time limit set forth above, Escrow Agent may either (a) continue to hold the Escrow Amount in accordance with Section 3.3 above, or (b) file an action or bill in interpleader, or similar action for such purpose, the cost thereof to be borne by whichever of the Parties is the losing Party, in a court of competent jurisdiction as set forth in the Purchase Agreement, and pay the Escrow Amount into said court, less escrow fees and costs, in which event, Escrow Agent’s duties, responsibilities and liabilities with respect to the Escrow Amount and the proceeds therefrom and this Agreement shall terminate, without liability to Escrow Agent.

5. Duties of the Escrow Agent.

5.1 Generally. The Escrow Agent is acting hereunder as escrow agent only and shall not be responsible or liable in any manner for the sufficiency, correctness, genuineness or validity of any document provided to the Escrow Agent except and only to the extent expressly provided in this Agreement. The Escrow Agent shall have no responsibility to act except to dispose of the Escrow Amount as provided in this Agreement. The Escrow Agent is authorized to act upon any document believed by it to be genuine and to be signed by the person purported to have signed it, and will incur no liability in so acting. Upon delivery or deposit of the Escrow Amount in accordance with the terms of this Agreement (including a deposit of the Escrow Amount in a court of competent jurisdiction), the Escrow Agent shall be discharged from any liability or responsibility therefor and shall have no further obligations hereunder. The Escrow Agent may cease to serve at any time without incurring any liability hereunder.

5.2 **Exculpation of Escrow Agent.** Shareholders and Purchaser, for themselves and any of their assigns or successors in interest, hereby waive any suit, claim, demand and cause of action of any kind which any or all of them may have or hereafter assert against the Escrow Agent with respect to the execution or performance by the Escrow Agent of its duties under this Agreement, unless such suit, claim, demand or cause of action is based upon the gross negligence or willful misconduct of the Escrow Agent. If any Party asserts a claim against the Escrow Agent concerning the Escrow Amount, then the Party asserting such claim shall indemnify and hold harmless the Escrow Agent for its costs (including attorneys' fees and costs of suit) in connection therewith if the Escrow Agent successfully defends such claim. The Parties agree that the Escrow Agent shall not be liable for any error of judgment or for any act done or omitted by it in good faith, or for anything which it may, in good faith, do or refrain from doing in connection with this Agreement.

5.3 **Written Instructions.** The Parties agree to sign and deliver such written instructions to the Escrow Agent as may be necessary to cause release of the Escrow Amount pursuant to the terms of this Agreement or that the Escrow Agent may request to clarify or confirm the terms under which the Escrow Agent is to hold and/or disburse the Escrow Amount (or any portion thereof).

5.4 **Accounting.** The Escrow Agent shall under no circumstances be compelled to furnish a formal accounting for the Escrow Amount; provided that the Escrow Agent shall be required to notify the Parties as to the distribution or disbursement of the Escrow Amount.

5.5 **Inability of Designated Escrow Agent to Serve.** In the event that the Escrow Agent designated herein is for any reason unable or unwilling to serve or to continue to serve as escrow agent, Purchaser and the Shareholders shall choose a mutually agreeable new escrow agent. The new escrow agent shall have all of the rights and perform all of the duties and obligations of the Escrow Agent set forth in this Agreement, provided that no person or entity shall serve as escrow agent unless he has executed a consent to abide by the terms of this Agreement applicable to the Escrow Agent and the Escrow Amount. If Purchaser and the Shareholders fail to designate a new escrow agent within ten (10) business days after notice by the Escrow Agent of its resignation, the Escrow Agent shall be free to resign and to pick a substitute escrow agent of its choice (in its sole discretion); provided, however, such substitute escrow agent shall be a commercial bank or trust company organized under the laws of the United States or any state thereof or an attorney or law firm or a certified public accountant or public accounting firm, licensed to practice in the State of New Jersey.

5.6 **Costs and Expenses.** Each of Purchaser, on the one hand, and the Shareholders, on the other hand, shall be responsible for one-half of all reasonable costs and expenses incurred by Escrow Agent in connection with the performance of its duties under this Agreement, except as expressly provided to the contrary in Sections 4 and 5.2 above.

5.7 **Continued Representation.** Shareholders and Purchaser agree that neither the designation of McCarter & English, LLP, as Escrow Agent nor its performance of its duties hereunder shall disqualify the firm or any of its attorneys from representing the Shareholders, or any of their affiliates, in connection with this Agreement or any dispute arising between the Parties with respect to the Purchase Agreement, or any other matter. The Purchaser hereby waives any conflict of interest arising from such continued legal representation and acknowledges that it has consulted with independent legal counsel in connection with this waiver.

6. **Miscellaneous.**

6.1 **Notices, Etc.** All notices, requests, demands and other communication hereunder shall be in writing, shall be given simultaneously to all Parties hereunder and the Escrow Agent and shall be deemed to be given when given by any of the means provided in the Purchase Agreement, the terms of which are hereby incorporated herein by this reference. Notices to the Escrow Agent shall be delivered to the attention of David F. Broderick, Esq., at McCarter & English, LLP, Four Gateway Center, 100 Mulberry Street, Newark, New Jersey 07102, fax: XXXXXXXXXX, email: XXXXXXXXXX.

6.2 **Construction, Entire Agreement.** The interpretation and construction of this Agreement and the conduct of the parties hereunder shall be governed by the laws of the State of New Jersey, without giving effect to principles of conflicts of law thereof. As between the Escrow Agent on the one hand and the other Parties on the other, this Escrow Agreement contains all the agreements between the parties hereto with respect to the matters referred to herein.

6.3 **Amendment.** Any modification or amendment of this Agreement shall be in writing and signed by each of the Parties and the Escrow Agent. Without limiting the generality of the foregoing, no modification or rescission of the terms of this Agreement and/or Escrow Agent's responsibilities hereunder shall be effective or binding upon the Escrow Agent unless and until consented to by Escrow Agent in writing.

6.4 **Parties Bound; No Third-Party Rights.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. The terms and provisions of this Agreement relating to the Escrow Amount shall create no right in any person, firm or corporation other than the Parties and the Escrow Agent, and their respective successors and permitted assigns, and no third party shall have the right to enforce or benefit from the terms hereof.

6.5 **Counting Time.** Should any date, on or before which the performance of any act (including the making of any payment) is required under the terms hereof, fall on a Saturday, Sunday, or a federal holiday, the date for performance shall be extended to and shall occur on the next succeeding business day.

[Signature Page Follows]

Note: Certain personal and/or confidential information marked with Xs has been redacted.

IN WITNESS WHEREOF, the Parties and the Escrow Agent have caused this Agreement to be executed on the date set forth above.

SHAREHOLDERS:

MIDMARK INVESTORS, L.P.
a Delaware limited partnership

By: MidMark Associates II, LLC,
its general partner

By: /s/ Ariel Weil
Name: Ariel Weil
Title: Managing Director

MIDMARK CAPITAL, L.P.
a Delaware limited partnership

By: MidMark Associates Inc.
its general partner

By: /s/ Ariel Weil
Name: Ariel Weil
Title: Managing Director

PURCHASER:

QAD IRELAND LTD.

By: /s/ Peter Geddes
Name: Peter Geddes
Title: Director

ESCROW AGENT:

MCCARTER & ENGLISH, LLP

By: /s/ David Broderick
Name: David Broderick
Title: Partner

**CERTIFICATIONS UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karl F. Lopker, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QAD Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 8, 2012

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

**CERTIFICATIONS UNDER
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Daniel Lender, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of QAD Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: June 8, 2012

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.

**CERTIFICATION FURNISHED PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending April 30 , 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karl F. Lopker, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: June 8, 2012

/s/ KARL F. LOPKER

Karl F. Lopker
Chief Executive Officer
QAD Inc.

**CERTIFICATION FURNISHED PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of QAD Inc. (the "Company") on Form 10-Q for the period ending April 30, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel Lender, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: June 8, 2012

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.
