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

FORM 10-K

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

For the fiscal year ended January 31, 2008

OR

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

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 and zip code)

Registrant's telephone number, including area code **(805) 566-6000**

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ YES ☒ NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ YES ☒ NO

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

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

☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer

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 July 31, 2007, the last business day of the Registrant's most recently completed second fiscal quarter, there were 31,197,442 shares of the Registrant's common stock outstanding, and the aggregate market value of such shares held by non-affiliates of the Registrant (based on the closing sale price of such shares on the NASDAQ Global Market on July 31, 2007) was approximately \$109.9 million. Shares of the Registrant's common stock held by each executive officer and director and by each entity that owns 5% or more of the Registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 31, 2008, there were 30,774,479 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 through 14 of Part III incorporate information by reference from the Definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on June 18, 2008.

QAD INC.
FISCAL YEAR 2008 FORM 10-K ANNUAL REPORT
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FORWARD-LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like “believe”, “anticipate”, “expect” and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to those discussed in Item 1A entitled “Risk Factors”. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in this Annual Report on Form 10-K and the other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal 2009.

PART I

ITEM 1. BUSINESS

ABOUT QAD

QAD Inc. (QAD, the Company, we or us), a Delaware corporation founded in 1979 is a provider of enterprise software applications, professional services and application support that address the requirements of manufacturing companies primarily in six target industries. With a goal of delivering software applications that enable its customers to operate their businesses more efficiently, embrace emerging business practices and comply with legislative requirements, QAD has built a customer base of more than 6,100 licensed sites that support their businesses using QAD software and services. QAD employs over 1,500 people around the world who develop products and work with customers to implement and support QAD Enterprise Applications. QAD’s vision for the future of manufacturing is a market where all suppliers, manufacturers and customers collaborate seamlessly to eliminate inefficiencies and automate processes at all stages of the supply chain. This vision for what QAD terms the *Perfect Lean Market* is key to QAD’s product direction and is unique in the enterprise software industry.

QAD Enterprise Applications, which includes modules formerly marketed as MFG/PRO, is QAD’s core product suite. QAD Enterprise Applications has been developed to address the needs of manufacturers in six principal industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. In addition to strong vertical expertise, we develop our products and services through consultation with customers and partners, ensuring that we are knowledgeable of requirements in the markets we serve. A key focus for QAD is addressing the needs of global manufacturers, enabling them to implement software applications to run their businesses almost anywhere in the world and meet local requirements while maintaining control of their business as a whole.

QAD has a design philosophy of developing software applications that are easy to implement as well as easy to use. Combined with focused implementation tools and methodology, we believe this design philosophy allows customers to implement QAD solutions faster than other competing solutions at lower operating costs over time.

In addition to the delivery of QAD Enterprise Applications, QAD has developed a global services and application support capability, with over 600 skilled personnel located throughout the world. QAD’s services and support capabilities are critical in delivering the value of its solutions to customers.

QAD has been at the leading edge of a number of technologies aimed at supporting its vision for the Perfect Lean Market. For example, QAD provides collaborative supply chain capabilities delivered on demand through its Supply Visualization service. QAD has built on this method of delivering its software applications and in 2007 announced the capability to deliver QAD Enterprise Applications in an on demand deployment environment. With QAD On Demand, customers can connect to their application over a network or the Internet without the need to provide or support their own computer systems. We see the on demand deployment option gaining acceptance in the market. QAD has considered this trend in delivering our software applications to address customers’ requirements.

CUSTOMERS

As of January 31, 2008, QAD software was licensed at approximately 6,100 sites in more than 90 countries. No single customer accounted for more than 10 percent of total revenue during any of the last three fiscal years. The following are among the companies and/or subsidiaries of those companies that have each generated more than \$1.0 million in software license, maintenance and services billings over the last three fiscal years:

Automotive

ArvinMeritor, Caterpillar, DURA Automotive Systems, EMCOM Technologies, Faurecia, Federal Mogul, Ford Motor Company, Freudenberg & Co., GKN, Johnson Controls, KYB Corporation, Lear, Remy International, TRW Automotive, Webasto, Yamaha Motor

Consumer Products

AKZO Nobel, Albany International, Amcor, Avery Dennison, Avon Products, Black & Decker, Culligan, David Yurman, de la Rue, International Paper, Proctor & Gamble, PZ Cussons, Sherwin-Williams, Watts Water Technologies

High Technology

Anritsu, FCI, Fujikura, Gemalto, General Electric, Hewlett Packard, Hitachi, Invensys, Itron, Laird Group, Lincoln Electric Holdings, Metrologic Instruments, Moog, Philips Electronics, SanDisk, Superior Essex

Food and Beverage

Associated British Foods, AVI, Bakkersland, Bush's Pet Foods, Coca-Cola Enterprises, Farm Frites, Imperial Tobacco, John B. Sanfilippo & Son, Kraft Foods, Lion Nathan, Oishi Group, PepsiCo, Qantas Flight Catering, Ralcorp, SPC Ardmona, Unilever

Industrial Products

A.O. Smith, Alcoa, Coorstek, Crane, Eaton, Enodis, Firmenich, Harris, Metso, Pentair, PPG Industries, Rockwell Automation, Saft, Saint-Gobain, Schlumberger, Thales

Life Sciences

Arthrex, Biovail, C.R. Bard, Cytec, Genzyme, John Crane, Johnson & Johnson, Kyphon, Laerdal Medical, Medela, Medtronic, Spacelabs Healthcare, Stryker, Tecnofarma, Teleflex, UCB Pharma

COMPETITIVE LANDSCAPE

Since the peak in Enterprise Resource Planning (ERP) software implementations following the year 2000, there has been considerable consolidation within the ERP market. Today's market has consolidated to a point where there are a few large companies who operate globally, several providers of ERP to local markets who do not operate globally and some niche solutions providers. QAD provides global applications and services capability, as well as the deep functionality of a focused solutions provider.

During the consolidation phase of recent years, some companies have focused on growth through acquisition of software businesses. We believe these companies have developed product suites made of many overlapping applications with little or no synergies between them. QAD has not pursued this growth strategy as we believe it is an unsustainable business model that is detrimental to the interest of our customers in the short term and to our shareholders in the long term.

When we consider the competition, we believe it can be broken in two broad categories of providers—global and local. QAD is well positioned to compete with providers in each of these categories. Further broken down, the key markets in which we operate are Global Enterprise Resource Planning, Local Enterprise Resource Planning, Managed and Professional Services and On Demand application delivery. The market definitions and competition are detailed below.

Global Enterprise Resource Planning

QAD offers a robust global solution and services organization that addresses the needs of global manufacturers. This suite consists of core ERP capabilities and a range of extended enterprise applications to compliment the core system, including products to support Customer Relationship Management (CRM), Transportation Management, Global Trade Management (GTM), Enterprise Asset Management (EAM), Business Analytics and Enterprise Application Integration (EAI). Most of QAD's revenue is derived from global manufacturing in this marketplace. QAD competes against several large, global competitors as well as a number of smaller, local companies providing a variety of offerings. Our large competitors are SAP AG, Oracle Corporation, Infor and to a limited extent, Microsoft Dynamics, a division of Microsoft Inc. QAD differentiates itself through its depth of capabilities for manufacturers and its acute industry focus, which we believe leads to less customization and lower costs for customers. This compares to the activities of the larger market players who, we believe, build offerings to cover very broad markets with a lesser focus on manufacturing alone. Ease of implementation, localization and multiple language support, as well as low total cost of ownership make QAD Enterprise Applications an attractive software choice for global businesses.

Local Enterprise Resource Planning

QAD Enterprise Applications is designed to be scalable so that the same applications can be deployed by global multinational companies as well as by local companies that may operate in a single country or even in a single location. The competition in this market varies by geography. In its regional businesses, QAD experiences competition from many other vendors, including SAP, Epicor, Microsoft Dynamics, Pronto Software, Lawson, Datsul, IFS and USF. QAD differentiates itself in this space by delivering robust manufacturing-focused capabilities and specialist capabilities to meet industry requirements. QAD believes its key competitive differentiator when competing in local markets is its depth of manufacturing capabilities within its software applications combined with the ease of implementation, which reduces the initial cost of deployment as well as ongoing costs to support the applications.

Managed and Professional Services

QAD provides a complete range of dedicated services to support customers using QAD Enterprise Applications. In addition, customers may supplement these services with partner or competitive service providers, both globally and locally. QAD services support the initial implementation of QAD Enterprise Applications and its components, migration from other ERP systems to QAD Enterprise Applications, services supporting the upgrade of customers to newer versions of QAD Enterprise Applications, and services to support the management of customers' software applications. The QAD Implementation methodology known as Q-Advantage has been developed to support implementations ranging in complexity from single site to global multi-site roll-outs, minimize risk and accelerate the time taken for customers to achieve their implementation goals. In addition, the QAD Application Management Services (AMS) offering can be tailored to meet the precise needs of our customers for delivery and support of their QAD Enterprise Applications.

On Demand

On demand deployment of software, or Software as a Service (SaaS), is becoming a more frequently used method of deploying software applications. Some of QAD's software has been delivered on demand for several years, in particular QAD Supply Visualization (SV). In fiscal 2008, we began sales of QAD Enterprise Applications with deployment independence through our On Premise (system is installed on a customer's computer), On Demand, (system is accessible remotely via the Web) or On Appliance (system is delivered on a machine that QAD remotely supports and administers) deployment options. The number of customers who have selected to deploy QAD software in an on demand deployment is growing and we expect to deliver more of our extended enterprise solutions in an on demand model in the future. While on demand deployment of QAD Enterprise Applications is developing, the main areas of attention for on demand delivery today are typically point solutions. Several competitors are exploring this deployment model despite there being a relatively low volume of activity at this time.

THE QAD STRATEGY

QAD's primary objective is to develop and deliver best-in-class software applications to meet the evolving needs of its customers. We focus on manufacturers in six target industries and expect to gain leadership positions in a number of niches within these markets. Our underlying vision for the *Perfect Lean Market* steers our product development and, we believe, enables us to align with the current as well as the future requirements of our customers. As the scope of our offerings increases, we are able to provide additional benefits and solutions to our existing customers as well as develop attractive solutions for potential customers. Our strategies for achieving our primary objective include the following:

- *Expand Our Customer Base.* As of January 31, 2008, QAD software was licensed at approximately 6,100 sites in more than 90 countries. With a substantial customer base and a historical maintenance renewal rate in excess of 90 percent, we expect to continue to drive revenue by selling additional products and services to existing customers. We plan to leverage our excellent reputation and expertise in the markets we serve to build additional business for our offerings. In fiscal 2009, QAD will continue to focus on adding new customers as part of a long-term strategy to expand the QAD customer base. A key focus for QAD in fiscal 2009 will be the expansion of customer engagements to understand the requirements of its customers and address their needs.
- *Leverage Our Market Position and Expertise in Key Vertical Industries.* We believe QAD is established in the six key vertical industries it serves. We have developed expertise and strength in specific market niches within these vertical industries that we can continue to leverage into leadership positions. This focus on specific market niches allows QAD to precisely target its application development and differentiate itself from competitors with more broadly targeted applications. An example of QAD's niche market focus is the automotive parts manufacturing niche within the automotive industry. In automotive parts, QAD has developed leading-edge functionality to address the needs of automotive parts companies at all levels in the supply chain with products including an in-line vehicle scheduling solution and QAD Lean Manufacturing capabilities.
- *Leverage Our Market Position and Reputation in Emerging Manufacturing Markets.* Many of QAD's customers are global multi-national manufacturers. These companies are often first to establish operations in new and emerging manufacturing markets around the world. In supporting these companies, QAD has consistently been able to establish operations as new markets emerge. The global capabilities of QAD's applications, together with local presence, allow QAD to develop a market presence in these markets where growth is strong.
- *Leverage Our Global Network of Alliances.* Strategic alliances with partners expand QAD's sales reach, improve its marketing impact, provide technological advantages and strengthen its strategic position in the industries it serves. We leverage the expertise of distribution, software, services and technology alliances to meet the diverse needs of our customers around the world. We augment our direct sales organization with a global network of more than 60 distributors and sales agents, as well as service organizations that offer consulting and implementation services to expand our reach.
- *Extend Our Product Offerings.* To remain competitive, QAD has a strategy to continually broaden the footprint of its applications. In pursuit of this goal, we continue to invest significantly in research and development (R&D) efforts. We expect to continue to focus on acquisitions of software, technology and service companies. In fiscal 2007, QAD acquired four companies with solutions covering Sales Force and Marketing Automation, Enterprise Asset Management, Transportation Management and Enterprise Financials. We began to realize the benefit of these acquisitions throughout fiscal 2008 and expect this to continue in fiscal 2009.

- *Develop Capabilities to Support an On Demand Environment.* In fiscal 2008, QAD continued to enhance its portfolio of on demand applications, including QAD Supply Visualization (SV). QAD has developed an integrated on demand strategy under which it expects to expand the on demand offering to more components of QAD Enterprise Applications. QAD expects to leverage its existing on demand portfolio to meet a growing industry trend.
- *Enhance Our Services Offerings.* QAD Global Services and application support are important components of QAD Enterprise Applications. We collaborate with our customers to support their global operations through our network of regional support centers, partner alliances and online support that is accessible 24 hours a day, seven days a week, virtually anywhere in the world. In fiscal 2008, QAD Global Services continued expansion of its Application Management Services (AMS) offering and supported the new QAD On Demand offering, gaining several global customers. In fiscal 2008, QAD Global Services established enhanced infrastructure in several locations to enable delivery of support and services offerings by leveraging cost-effective, highly skilled resources. These enhanced services offerings demonstrate QAD's commitment to support its customers long after product implementation through continuous engagement that improves their return on investment.

QAD SOLUTIONS

QAD provides software applications, professional services and support to address the requirements of global manufacturers in the industries we serve. QAD products and services are designed to strengthen customers' performance and add value to their businesses. QAD solutions combine the functionality and capabilities of QAD Enterprise Applications with the expertise and experience of QAD Global Services.

QAD ENTERPRISE APPLICATIONS

QAD Enterprise Applications is a robust suite of software applications that is designed to address the needs of manufacturers wherever they do business in the world. The suite has been built with specific functionality to meet the requirements of our target vertical industries, and allows single as well as multi-plant manufacturers to control all aspects of their operations and coordinate their entire supply chain. In recent years, QAD has focused on enhancing its core enterprise suite, QAD Enterprise Applications. QAD is focused on delivering 'Total Enterprise Capability' by providing customers with deployment-independent solutions built on a Service-Oriented Architecture (SOA) that provide the capabilities required to support their businesses. A key focus for QAD has also been on 'Human Engineering,' making QAD Enterprise Applications simple to implement, learn and use. Our goal is to make QAD Enterprise Applications a pleasure to use at a business level.

QAD Enterprise Applications can be deployed in a number of different ways: On Premise, On Demand or On Appliance. This deployment independence is a key differentiator for QAD. QAD Enterprise Applications provides capabilities in the areas of financial management, customer management, manufacturing, supply chain management, transportation management, service and support, enterprise asset management and business intelligence. QAD Enterprise Applications is built on a Service-Oriented Architecture, enabling customers to more simply integrate our applications to other software and systems. In fiscal 2008, QAD launched QAD Enterprise Applications 2007 (QAD 2007) and will be enhancing the suite further with the launch of QAD Enterprise Applications 2008 (QAD 2008) in fiscal 2009. The QAD Enterprise Applications solution suites are detailed below.

QAD Enterprise Financials

QAD Enterprise Financials is the evolution of QAD's financial suite and the result of a project to enhance the financial capabilities of QAD Enterprise Applications. QAD Enterprise Financials was made available to early adopter customers in fiscal 2008 and we expect to make this generally available to customers in fiscal 2009 in our QAD 2008 release. QAD Enterprise Financials is a suite of financial applications that addresses customer requirements from enterprise accounting to management accounting with a focus on addressing regulatory compliance, business control and separation of duties. The suite supports multi-language, multi-currency and multi-entity deployment and offers functionality that major companies require to both manage and control their businesses. We believe QAD Enterprise Financials provides both a great user experience and improved efficiency for finance and administrative organizations.

QAD Customer Management

The QAD Customer Management suite covers the major aspects of customer-and demand-facing operations for a manufacturer, from accurate demand forecasting and management to sales force automation and order management. The Distributed Order Management capability allows companies to distribute customer service functions globally and define complex rules for fulfillment and shipping, addressing the growing demand for shared services support in customer-facing applications.

QAD Manufacturing

The QAD Manufacturing suite provides capabilities for manufacturers to support and control their materials management and manufacturing processes. This suite has been designed to support mixed mode manufacturing, multi-plant operations and to embrace Lean principles. The ability to trace lots and items throughout the process allows compliance with industry and geography-specific regulations such as cGMP (Current Good Manufacturing Practice) in the life sciences industry and ISO TS 16949 (quality management regulation) in automotive industry. We believe QAD Manufacturing solutions have deep capabilities for our target customers and permit simple integration to production systems. The tight integration between scheduling, planning, execution and materials allows tight control and simple management of processes.

QAD Supply Chain

QAD Supply Chain solutions provide functionality for linking and managing trading partner relationships for the purchase of stock items, supplies and services to coincide with plans and operations. With QAD Supply Chain solutions, companies can manage the procurement process, from requisitions to purchase orders, receiving to invoices, and track supplier performance. Integrated quality management functions send test results from the inspection of incoming items to the system for increased responsiveness to customers and suppliers. Capabilities within this suite support high-volume repetitive deliveries with supplier schedules that specify dates (and even hours of delivery for the near term) and update long-term plans. This approach allows the supplier to order materials and plan production and deliveries based on timely data. QAD Supply Chain solutions can increase return on investment by enabling manufacturers to increase quality, speed production and reduce costs in the supply chain.

QAD Service and Support

As part of QAD Enterprise Applications, the Services and Support capabilities allow customers to manage and support their software applications after manufacture and sale. This suite tracks complex systems and installations allowing service calls to be tracked and scheduled in addition to maintaining tight control of built and installed records. Typical users include communications systems manufacturers and medical device manufacturers. This part of a product lifecycle is becoming more and more important to customers and QAD offers strong capabilities in this solution suite.

QAD Enterprise Asset Management

QAD offers capabilities to manage and track capital projects like factory re-fits, production line and installations, as well as track plant and equipment maintenance needs and schedules. QAD Enterprise Asset Management allows accurate management of materials and spares as well as optimizes 'uptime' of critical processes for asset-intensive organizations including effective management of maintenance, repair and operations (MRO) parts. MRO Inventory and Purchasing allows businesses to achieve the ideal balance between having the right inventory on hand and minimizing inventory investment. This suite is a critical component of most manufacturers' systems today.

QAD Analytics

A wealth of information may be stored in QAD Enterprise Applications. Using QAD Analytics, this information can be used to perform complex analysis, enabling better decision-making and improved performance management.

QAD Transportation Management

QAD's Transportation Management suite addresses the needs of distributors and manufacturers in the key areas of Global Trade Management, Freight Management and Trade Compliance. The core capabilities of QAD Transportation management came from the acquisition of Precision Software Limited (Precision) in fiscal 2007. QAD markets its Transportation Management suite directly to its existing customers and, using the Precision brand, markets outside the QAD target customer base. The Precision Software business unit is developing additional transportation capabilities and resells products through a number of partners around the world.

QAD Interoperability

QAD Enterprise Applications is built on a solid Service Oriented Architecture and different elements of the core and extended suite communicate via QAD's messaging and services layer called QAD QXtend. QAD QXtend allows customers to integrate QAD Enterprise Applications to other core applications used in their business, from in-house software to other Web Services. This 'open' interoperability allows QAD customers a free choice of technologies in their software environments. We believe this ease of integration provides a cost of ownership advantage for our customers.

QAD GLOBAL SERVICES

QAD Global Services offers a broad range of consulting services and support for QAD Enterprise Applications. Additionally, we offer a range of long-term business solutions, such as strategic consulting, business solution design and implementation, application management services and technical services to our customers.

QAD Global Services consultants work with our customers to support and improve their global operations. Through our network of regional support centers and over 400 consultants worldwide, we are able to develop and deploy teams quickly to meet customer needs anywhere in the world:

- By leveraging the expertise of QAD Global Services, companies improve the return on their investment and can focus resources on their core business.
- When customers choose from the QAD Global Services portfolio of consulting, learning and support solutions, they enter into a partnership with QAD that enables them to achieve improved operations, faster time-to-benefit and better controls.
- The QAD Global Services team focuses on delivering proven manufacturing solutions to manufacturing companies in our six key vertical markets.

QAD Consulting offers a wide array of services, including implementation services, upgrade services, assessment services and application management services. Our QAD-trained professionals offer deep industry experience and a set of proven best practices that provide significant business process improvements for our customers. With thousands of successful engagements, QAD Consulting has the experience and tools to deliver a faster time to benefit when compared to other consulting software companies or systems integrators. Customers who work with QAD Consulting experience successful deployment of systems, rapid return on investment (ROI) and increased long-term benefits to their business through the use of QAD Enterprise Applications.

QAD Learning provides a flexible and cost-effective set of learning offerings that develop and empower users to gain proficiency with QAD Enterprise Applications. Customers can choose from various self-paced online courses, instructor-led classroom courses, Web events, customized training solutions and in-depth training materials.

QAD Support is a Help Desk Institute-certified organization with support centers located around the world, providing the local presence and global reach that our customers expect. Quick problem response is accessible 24 hours a day, seven days a week through our global network of regional support centers. QAD provides both Standard and Premium Support, allowing customers to choose the best match for their specific support needs. QAD Support offers remote access diagnostic tools, an extensive knowledgebase, a software and documentation download center and the QAD Learning Portal, all with the goal of providing quick issue response and uninterrupted service for QAD customers' operations.

QAD PRODUCT ALLIANCES

We have a number of ongoing business alliances that extend the functionality of our software through integrated best-in-class applications. We have also entered into select agreements with third-party software developers who provide functionality that has been embedded into or integrated with QAD software. We continue to form alliance arrangements to deliver more complete solutions for the vertical markets we target. Additionally, we support a number of different hardware platforms. Our alliances include Progress Software Corporation, Microsoft, Cognos, Sterling Commerce and Vertex. These and other business affiliations are closely aligned to our organization.

TECHNOLOGY

QAD places considerable focus on the underlying technology used to develop QAD Enterprise Applications. Our goal is to allow customers to choose how they deploy their software applications. In addition, QAD Enterprise Applications is designed to integrate easily with other systems, implement rapidly and adapt to customers' requirements. In pursuit of this goal, QAD has a philosophy of embracing 'open' components to allow customers to operate on a number of different operating systems, hardware platforms and underlying databases when they deploy their software applications. In recent years, QAD has transitioned its applications architecture to a Services Oriented Architecture, enabling components of QAD Enterprise Applications to communicate with one another through industry-standard messaging techniques. In addition, our customers can harness other Web services to deliver the full benefit to their businesses.

QAD has always focused on the development of applications that are simple to use and, in recent years, has invested heavily in 'human engineering,' the development of software that is simple and intuitive to users, requiring minimal training and delivering high functionality. In the last few years we have invested heavily in the development of our User Interface technology and today have a unified interface with which we deliver most of our software applications. This interface enables users to harness common functions such as reporting and inquires, regardless of which part of the software application they use, as well as benefit from simple navigation and the ability to visualize their roles in the context of visual process maps. QAD's goal is to ensure that users find it simple to learn and use QAD Enterprise Applications and that it is a pleasure to use in their day-to-day roles.

QAD Enterprise Applications has been developed using a variety of commonly available and widely supported development environments. The most significant toolsets used include components developed by Progress Software Corporation (Progress), Microsoft (.Net Framework) and Sun Microsystems (Java). QAD Enterprise Applications operates on a variety of common database platforms, including those provided by Progress and Oracle Corporation. QAD Enterprise Applications supports most commercial operating systems, including most LINUX-derived operating systems, Windows Server System 2005 and most proprietary versions of UNIX. Where practical, QAD endeavors to ensure that QAD Enterprise Applications can support collaboration and integration to other systems using open industry standards.

At the foundation of QAD Enterprise Applications is QAD's Domain architecture. This architecture allows global customers greater flexibility in how they deploy their system, permitting them to select centralized, decentralized or hybrid computing architectures with parts of their enterprise running from both central resources and local resources. Using QAD's Domain architecture, QAD customers have the ability to configure their systems to support dynamic business models, as well as change their systems to reflect modifications in their business structure with minimal configuration. QAD's Domain architecture has been designed to enable QAD customers to deploy their systems across a global enterprise more rapidly than older system architectures and allows them to reconfigure their systems easily if changes occur, such as divestment or acquisitions.

RESEARCH AND DEVELOPMENT

QAD operates a significant research and development (R&D) organization, responsible for both the development of new products and the evolution of existing products to address customers' changing needs and meet market requirements. In pursuit of this, QAD's R&D organization is structured to reflect the fundamental product areas that the company develops. We have teams focused on the underlying foundation and technology of our applications, teams focused on User Interface and usability, as well as teams focused on the functional areas of our application suite such as financials, supply chain, manufacturing, customer management and analytics.

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QAD's product groups within the R&D organization work with QAD product marketing to develop functional roadmaps for QAD Enterprise Applications as well as with customers to develop specific functionality as required. Wherever possible, QAD works with customers to validate market requirements and accelerate product development, ensuring that we bring the right products to market at the right time to meet our customers' needs.

QAD leverages skills and resources around the globe and operates R&D centers in the United States, India, China, Ireland, Australia and Belgium. Through the formation of virtual teams and iterative development approaches, we are able to enhance and develop our applications faster than many of our competitors. The responsibility for defining our overall product roadmap and direction is coordinated in our California headquarters where a robust process of taking input from our vertical and product marketing organizations, as well as direct customer feedback, allows prioritization of research and development efforts.

Our R&D expenses totaled \$41.1 million, \$40.1 million and \$32.7 million in fiscal years 2008, 2007 and 2006, respectively.

SALES AND MARKETING

QAD sells and supports its products and services through direct and indirect sales channels and service organizations located throughout the world.

Our direct sales organization is composed of approximately 85 commissioned sales people. We continually align our sales organization and business strategies with market conditions in order to ensure that we sustain our effectiveness in the sales process. Within each territory, a focus on the industries we serve is maintained through marketing, local product development and sales training.

Our indirect sales channel consists of over 60 distributors and sales agents worldwide. We do not grant exclusive rights to any of our distributors or sales agents. Our distributors and sales agents primarily sell independently to companies within their geographic territory, but may also work in conjunction with our direct sales organization. In addition, we leverage our relationships with implementation service providers, hardware vendors and other third parties to identify sales opportunities on a global basis.

Our marketing strategy is to build QAD's brand and develop demand for our products by openly and consistently communicating with QAD customers, prospects, partners, investors and other key audiences. Our main objective is to shape and strengthen these valuable business relationships, leading to increased awareness and revenue-driving leads. Through globally integrated marketing campaigns, frequently executed at the regional and local levels, we are able to maintain close contact with our vertical markets through media, analyst and investor relations, customer events, Web-based communications and the development of sales tools to support our field sales organization and our direct and indirect marketing efforts.

EMPLOYEES

As of January 31, 2008, we had approximately 1,500 full-time employees, of which approximately 600 were in support and services, 350 were in research and development, 300 were in sales and marketing and 250 were in administration. Generally, our employees are not represented by collective bargaining agreements. However, certain employees of our Netherlands and French subsidiaries are represented by statutory works councils as required under local law. Employees of our Brazilian subsidiary are represented by a collective bargaining agreement with the Data Processing Union. We believe that, in general, our employee relations are good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers. All ages are as of March 31, 2008.

NAME	AGE	POSITION(S)
Pamela M. Lopker	53	Chairman of the Board and President
Karl F. Lopker	56	Chief Executive Officer
Daniel Lender	41	Executive Vice President and Chief Financial Officer
Roland B. Desilets	46	Executive Vice President, General Counsel and Secretary
Kara Bellamy	32	Vice President, Corporate Controller and Chief Accounting Officer

Pamela M. Lopker founded QAD in 1979 and has been Chairman of the Board and President since QAD's incorporation in 1981. Previously, Ms. Lopker served as Senior Systems Analyst for Comtek Research from 1977 to 1979. She is certified in production and inventory management by the American Production and Inventory Control Society. Ms. Lopker earned a bachelor of arts degree in mathematics from the University of California, Santa Barbara. She is married to Karl F. Lopker, Chief Executive Officer of QAD.

Karl F. Lopker has served as Chief Executive Officer and a Director of QAD since joining QAD in 1981. Previously, he was President of Deckers Outdoor Corporation, a company that he founded in 1973. Mr. Lopker is certified in production and inventory management by the American Production and Inventory Control Society. He received a bachelor of science degree in electrical engineering from the University of California, Santa Barbara. Mr. Lopker is married to Pamela M. Lopker, Chairman of the Board and President of QAD.

Daniel Lender has served as Executive Vice President and Chief Financial Officer since July 2003. Previously, he served as QAD's Vice President of Global Sales Operations and Vice President of Latin America. Mr. Lender joined QAD in 1998 as Treasurer following a nine-year tenure with the former Republic National Bank of New York, last serving as Vice President and Treasurer of the Bank's Delaware subsidiary. He earned a master of business administration degree from the Wharton School of the University of Pennsylvania and a bachelor of science degree in applied economics and business management from Cornell University.

Roland B. Desilets has served as Executive Vice President, General Counsel and Secretary since April 2001, when he rejoined QAD after spending one year as Vice President and General Counsel of Atlas Commerce, Inc. Mr. Desilets initially joined QAD in 1993, serving as Regional General Counsel until 1998 when he was named Corporate General Counsel. Previously, he was Intellectual Property Counsel for Unisys Corporation. Mr. Desilets holds a juris doctor degree from Widener University School of Law, a master of science degree in computer science from Villanova University and a bachelor of science degree in physics from Ursinus College.

Kara Bellamy has served as Vice President, Corporate Controller and Chief Accounting Officer since January 2008. She joined QAD as Assistant Corporate Controller in July 2004 after working for Somera Communications, Inc. as its Corporate Controller. Ms. Bellamy began her career at the public accounting firm of Ernst & Young. She is a Certified Public Accountant and received a bachelor of arts degree in business economics with an accounting emphasis from the University of California, Santa Barbara.

SEGMENT REPORTING

Segment financial information for fiscal years 2008, 2007 and 2006 is presented in note 10 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

AVAILABLE INFORMATION

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our website at www.qad.com, as soon as reasonably practicable after such reports have been electronically filed or otherwise furnished to the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

FACTORS THAT MAY AFFECT FUTURE RESULTS, THE MARKET PRICE OF OUR STOCK, HISTORICAL FLUCTUATIONS IN QUARTERLY RESULTS AND POTENTIAL FUTURE SIGNIFICANT FLUCTUATIONS

RISK OF FLUCTUATIONS IN REVENUE AND EXPENSE

Because of the significant fluctuations in our revenue, period-to-period comparisons of our revenue or profit may not be meaningful. As a result, these comparisons should not be relied upon as indications of future performance. Moreover, there can be no assurance that our revenue will grow in future periods or that we will be profitable on a quarterly or annual basis.

A significant portion of our revenue in any quarter may be derived from a limited number of large, non-recurring license sales. We expect to continue to experience large individual license sales, which may cause significant variations in license fees. We also believe that the purchase of our products is discretionary and generally involves a significant commitment of a customer's capital resources. Therefore, a downturn in any significant customer's business could have a significant adverse impact on our revenue and profit.

The services business may fluctuate. Services revenue remains a substantial part of our business. Services revenue is dependent upon the timing and size of customer orders to provide the services, as well as upon our related license sales. In addition, continuous engagement services, such as Application Management Services ("AMS") and our On Demand offerings, may involve fixed price arrangements and significant staffing which inherently involve certain risks. Even in an environment where services revenue is increasing, business conditions associated with the delivery of services may negatively affect the margin on such revenue. To the extent that we are not successful in securing orders from customers to provide services, or to the extent we are not successful in achieving the expected margin on such services, our results may be negatively affected.

A significant portion of our revenue is derived from maintenance renewals. Our maintenance renewal rate may not be predictable and is dependent upon a number of factors such as our ability to continue to develop and maintain our products, our ability to continue to recruit and retain qualified personnel to assist our customers, and our ability to promote the value of maintenance for our products to our customers. Maintenance renewals are also dependent upon factors beyond our control such as technology changes and their adoption by our customers, budgeting decisions by our customers, changes in our customers' strategy or ownership and attempts by our competitors to replace our products with their own. If our maintenance renewal rate were to fall, our revenue would be adversely affected.

Fixed expense level is based on expected revenues. Our expense level is relatively fixed and is based, in significant part, on expectations of future revenue. If revenue levels fall below expectations, expenses could be disproportionately high as a percentage of total revenue, which would adversely affect our operating results.

We may have exposure to additional tax liabilities. As a multinational organization, we are subject to income taxes as well as non-income based taxes in the United States and in various foreign jurisdictions. Significant judgment is required in determining our worldwide income tax provision and other tax liabilities. In the ordinary course of a global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, the final determination of tax audits or tax disputes may differ from what is reflected in our historical income tax provisions and accruals. We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, both in the United States and in various foreign jurisdictions.

Our tax rate may increase, which could increase our income tax expense and reduce our net income. Our tax rate could be adversely affected by several factors, many of which are outside of our control, including:

- Changes in the relative proportions of revenues and income before taxes in various jurisdictions;
- Changing tax laws, regulations and interpretations thereof;
- Unanticipated changes in tax rates;
- Changes in accounting and tax treatment of stock-based compensation;

- Tax effects of purchase accounting for acquisitions and restructuring charges that may cause fluctuations between reporting periods;
- Changes to the valuation allowance on net deferred tax assets;
- Assessments and any related tax interest or penalties; and
- Discrete items which are not related to income.

We report our results of operations based on our determinations of the amount of taxes owed in the various tax jurisdictions in which we operate. Periodically, we may receive notices that a tax authority to which we are subject has determined that we owe a greater amount of tax than we have reported to such authority, in which case, we may engage in discussions or possible disputes with these tax authorities. If the ultimate determination of our taxes owed in any of these jurisdictions is for an amount in excess of the tax provision we have recorded or reserved for, our operating results, cash flows, and financial condition could be adversely affected.

RISKS ASSOCIATED WITH SALES CYCLE

Our products involve a long sales cycle and the timing of sales is difficult to predict. Because the licensing of our primary products generally involves a significant commitment of capital or a long term commitment by our customers, the sales cycle associated with a customer's purchase of our products is generally lengthy and usually takes several months. This cycle varies from customer to customer and is subject to a number of significant risks over which we have little or no control. The evaluation process that our customers follow generally involves many of their personnel and requires complex demonstrations and presentations to satisfy their needs. Significant effort is required from QAD to support this approach, whether we are ultimately successful or not. If sales forecasted for a particular quarter are not realized in that quarter, then we are unlikely to be able to generate revenue from alternative sources in time to compensate for the shortfall. As a result, a lost or delayed sale could have an adverse effect on our quarterly and/or annual operating results.

In some cases we provide a portion of the customer solution that involves third parties during the sales cycle. While we believe we have established a robust global support and services organization over the past several years, we continue to rely on third-parties for a portion of our implementation and systems support services. We also occasionally cooperate with third party software providers of point solutions as part of an overall proposal. In some situations, such as when these third-parties are the primary contractor or otherwise an essential party to a larger arrangement, this reliance on third parties may cause sales cycles to be lengthened and may result in the loss of sales.

We have historically recognized a substantial portion of our revenue from sales booked and shipped in the last month of a quarter. As a result, the magnitude of quarterly fluctuations in license fees may not become evident until the end of a particular quarter. Our revenue from license fees in any quarter is substantially dependent on orders booked and shipped in that quarter.

We must hire and retain highly skilled sales and marketing personnel to be successful in the sales cycle. We cannot ensure that we will be successful in hiring and retaining appropriate sales and marketing personnel in accordance with our plans. Neither can there be assurance that our recent and planned strategies in sales and marketing will ultimately prove to be successful. In addition, our sales and marketing organization may not be able to compete successfully against the significantly more extensive and better funded sales and marketing operations of many of our current and potential competitors.

DEPENDENCE ON THIRD-PARTY SUPPLIERS

We are dependent on third-party suppliers, particularly Progress software. The majority of QAD Enterprise Applications are written in a programming language that is proprietary to Progress Software Corporation (Progress). These QAD Enterprise Applications do not run within programming environments other than Progress and therefore our customers must acquire rights to Progress software in order to use these QAD Enterprise Applications. We have an agreement with Progress under which Progress licenses us to distribute and use Progress software related to our products. This agreement remains in effect unless terminated either by a written three year advance notice or due to a material breach that is not remedied.

Our success is dependent upon our continuing relationship with Progress. It is also dependant upon Progress continuing to develop, support and enhance its programming language, its toolset and its database, as well as the continued market acceptance of Progress as a standard database program. We have in the past, and may in the future, experience product release delays because of delays in the release of Progress products or product enhancements. Any of these delays could have an adverse effect on our business.

Certain QAD Enterprise Applications are developed using embedded programming tools from Microsoft and from Sun Microsystems for the Microsoft .NET framework and Java Programming environment respectively. We rely on these environments continued compatibility with customers' desktop and server operating systems. In the event that this does not occur, some of our customers may not be able to easily upgrade their QAD software. We also have an exposure with the present method of licensing the .NET framework in that it is currently provided as part of Microsoft's Desktop Operating systems. If this policy changed and a price was applied to the .NET framework, our sales may be adversely affected. For both of these elements, we rely on market acceptance and maintenance of these environments and we may be adversely affected if these were withdrawn or superseded in the market.

We also maintain development, product, and supplier services alliances with other third-parties. These alliances include software developed to be sold in conjunction with QAD Enterprise Applications, technology developed to be included in or encapsulated within QAD Enterprise Applications, joint development efforts with partners or customers, and products and numerous third-party software programs that generally are not sold with QAD Enterprise Applications but interoperate directly with QAD Enterprise Applications. We also have a service provider agreement for the provision of certain infrastructure related to our On Demand offerings. Our strategy may include additional investment in research and development efforts involving third parties, as well as a greater focus on potential acquisitions to aid in expanding the breadth of the product line.

Our partner agreements, including development, product acquisition and reseller agreements contain appropriate confidentiality, indemnity and non-disclosure provisions for the third party and end-user. Failure to establish or maintain successful relationships with these third-parties or failure of these parties to develop and support their software, provide appropriate services and fulfill all other agreement obligations could have an adverse effect on us. We have been in the past, and expect to be in the future, party to disputes about ownership, license scope and royalty or fee terms with respect to intellectual property.

RAPID TECHNOLOGICAL CHANGE

The market for QAD Enterprise Applications is characterized by rapid technological change. Customer requirements for products can change rapidly as a result of innovation or change within the computer hardware and software industries, the introduction of new products and technologies and the emergence of, adoption of, or changes to, industry standards including those related to consolidation in the industry. Our future success will depend upon our ability to continue to enhance our current product line and to develop and introduce new products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements, keep pace with industry and compliance standards and achieve market acceptance. Our failure to successfully develop or acquire, and market product enhancements or new products could have an adverse effect on us.

New software releases and enhancements may adversely affect our software sales. The actual or anticipated introduction of new products, technologies and industry standards can cause customers to delay decisions and can also render existing products obsolete or unmarketable or result in delays in the purchase of those products. Our success in launching new products may also jeopardize our ability to compete. Failure by us to anticipate or respond to developments in technology or customer requirements, significant delays in the introduction of new products or failure by us to maintain overall customer satisfaction could have an adverse effect.

PROPRIETARY RIGHTS AND LICENSING

Our success is dependent upon our proprietary technology and other intellectual property. We rely on a combination of the protections provided by applicable copyright, trademark and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect our rights in our software and related materials and information. Although we currently have no patents, we have two pending patent applications. We enter into license agreements with each of our customers and these license agreements provide for the non-exclusive license of QAD Enterprise Applications. These licenses generally are perpetual, although our evolving on demand licensing strategy will likely cause certain licenses to be periodic in nature. Our licenses contain confidentiality and non-disclosure provisions, a limited warranty covering our applications and indemnification for the customer from infringement actions related to our applications.

Our pricing and licensing models may affect our ability to compete. Our pricing policy is based on a standard price list and may vary based on different parameters, including the number of end-users, number of sites, number of modules, number of languages, length of time, the country in which the license is granted and level of ongoing support, training and services to be provided by QAD. We expect to continue to introduce products using an on demand licensing model. Our ability to offer competitive pricing models in response to the market is also a risk.

There are no assurances that such licensing models will be accepted in the market place or will yield revenue comparable to that of past licensing models.

We license our source code to our customers, which makes it possible for third-parties to copy or modify our software for impermissible purposes. We generally license our software to end-users in both object code (machine-readable) and source code (human-readable) formats. While this practice facilitates customization, making software available in source code also makes it possible for third-parties to copy or modify our software for impermissible purposes. Our license agreements generally allow the use of our software solely by the customer for internal purposes without the right to sublicense or transfer the software to third-parties.

We believe that the measures we take to protect our intellectual property afford only limited protection. Despite our efforts, it may be possible for third-parties to copy portions of our products, reverse engineer them or obtain and use information that we regard as proprietary, all of which could adversely affect our competitive position. Furthermore, there can be no assurance that our competitors will not independently develop technology similar to ours. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as the laws of the United States.

The success of our business is highly dependent on maintenance of intellectual property rights. The unauthorized use of our intellectual property rights may increase the cost of protecting these rights or reduce our revenues. We may initiate, or be subject to, claims or litigation with or against third-parties for infringement of our proprietary rights or to establish the validity of our proprietary rights, which could result in significant expense to us, cause product shipment delays, require us to enter royalty or licensing agreements and divert the efforts of our technical and management personnel from productive tasks, whether or not such litigation were determined in our favor.

We may be exposed to product liability claims. While our license agreements with our customers typically contain provisions designed to limit our exposure to potential material product liability claims, including appropriate warranty, indemnification, waiver and limitation of liability provisions, it is possible that such provisions may not be effective under the laws of some jurisdictions.

We have an errors and omissions insurance policy. However, this insurance may not continue to be available to us on commercially reasonable terms or at all. We may be subject to product liability or errors or omissions claims that could have an adverse effect on us. Moreover, defending a suit, regardless of its merits, could entail substantial expense and require the time and attention of key management personnel.

ENTERPRISE APPLICATION SOLUTIONS

The market for enterprise applications is uncertain and we are substantially dependent on our core product suite, QAD Enterprise Applications. A significant element of our strategy is the acceptance of our QAD Enterprise Applications, including in particular, modules formerly marketed as the MFG/PRO System. We derive a significant portion of our revenue from software license and maintenance revenue attributable to this product suite and from other complimentary products that are generally licensed only in conjunction with this suite. The failure of QAD Enterprise Applications, including the modules formerly marketed as the MFG/PRO System, and related products to continue to have market acceptance for license sales and maintenance renewals would adversely affect our business. In addition, we have invested, and expect to continue to invest, substantial resources developing and enhancing the various product suites that make up QAD Enterprise Applications. If QAD Enterprise Applications fails to gain acceptance in the marketplace, it may not yield the return on investment we expect and would adversely affect us.

We may not retain or attract customers if we do not develop new products and enhance our current products in response to technological changes and competing products. The enterprise application market is faced with rapid technological change, evolving standards in computer hardware, software development and communications infrastructure, as well as changing customer needs. Building new products requires significant development investment. A substantial portion of our research and development resources is devoted to product upgrades that address new technology, regulatory and maintenance requirements thereby putting constraints on our resources available for new product development. In addition, part of our strategy is to acquire certain products to extend and enhance our product offering. The success of QAD Enterprise Applications will depend on our ability to successfully develop, enhance and globalize these offerings and distribute, service and support them internationally. We also face uncertainty when we develop or acquire new products because there is no assurance that a sufficient market will develop for those products.

QAD Enterprise Applications are often deployed in complex systems and may contain defects or security flaws. Because our products are often deployed in complex systems, they can only be fully tested for reliability when deployed in such systems and often require long periods of time for such testing. Our customers may discover defects in our products, experience corruption of their data or encounter performance or scaling problems only after our software programs have been deployed. In addition, our products are combined with products from other vendors. As a result, should problems occur, it may be difficult to identify the source of the problem. Software and data security are becoming increasingly important because of regulatory restrictions on data privacy and the significant legal exposures and business disruptions stemming from computer viruses and other unauthorized entry or use of computer systems. Product defects and security flaws could expose us to product liability and warranty claims and harm our reputation, which could impact our future sales of products and services.

Our efforts to expand our offering beyond the traditional manufacturing ERP market may not succeed. We have traditionally focused our business on providing enterprise applications and services for manufacturing companies' internal system services for the vertical manufacturing markets we target. However, in the future, we may seek to expand into other markets. For instance, last year we launched the Precision Software division, a provider of solutions for transportation management. The Precision solution targets customers outside our traditional vertical manufacturing markets. Efforts to expand beyond these markets may not result in significant revenue growth for us. In addition, efforts to expand beyond our traditional markets and, in the case of SaaS offerings, outside our traditional delivery and licensing models, may divert management resources from existing operations and require us to commit significant financial resources to an unproven business, which may harm our existing business.

MARKET CONCENTRATION

We are dependent upon achieving success in certain concentrated markets. We have made a strategic decision to concentrate our product development, as well as our sales and marketing efforts, in certain primary vertical industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. An important element of our strategy is the achievement of technological and market leadership recognition for our software products in these segments. The failure of our products to achieve or maintain substantial market acceptance in one or more of these segments could have an adverse effect on us. If any of these targeted industry segments experience a material slowdown in expansion or in prospects for future growth, that downturn would adversely affect the demand for our products. A discussion of concentration of our credit risk is contained in note 1 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

DEPENDENCE UPON DEVELOPMENT AND MAINTENANCE OF THIRD PARTY RELATIONSHIPS TO PROVIDE SALES, SERVICES AND MARKETING FUNCTIONS

We are dependent upon the development and maintenance of sales and marketing channels. We sell and support our products through direct and indirect sales, services and support organizations throughout the world. Our indirect sales channel consists of over 60 distributors and sales agents worldwide that we refer to as sales channels. We do not grant exclusive distribution rights to our sales channels. Our sales channels primarily sell independently to companies within their geographic territory, and may work in conjunction with our direct sales organization. Sales derived through indirect channels are more difficult to predict and may have lower profit margins than direct sales.

We have separate agreements with our alliances, sales channels and service providers. These agreements make available to our distributors and service providers the non-exclusive right to promote and market QAD Enterprise Applications and to provide training, installation, implementation and other services for QAD Enterprise Applications within a defined territory for a specified period of time. These providers are generally permitted to set their own rates for their services and our distributors receive a discount for the distribution of our software products.

We have certain relationships with a number of consulting and systems integration organizations that we believe are important to our worldwide sales, marketing, service and support activities and to the implementation of our products. QAD Global Services is designed to compliment these arrangements so that we can both subcontract our services to third-party providers or be a sub-contractor to these providers, on a global basis to meet our customers' requirements. We believe this method allows for additional flexibility in ensuring our customers' needs for services are met in a cost effective, timely and high quality manner. Our providers generally do not receive fees for the sale of our software products unless they participate actively in a sale as a sales agent or a distributor. We typically do not receive a fee from these providers on services. We are aware that these third-party providers do not provide system integration services exclusively for our products and in many instances these firms have similar, and often more established, relationships with our principal competitors.

Our intellectual property rights may be significantly affected by third-party relationships and actions. We have in the past, and may in the future, resell certain software which we license from third-parties. In addition, we have in the past, and may in the future, jointly develop software in which we have co-ownership or cross-licensing rights or grant rights for the resulting software to interoperate with our products. There can be no assurance that these third-party software arrangements and licenses will continue to be available to us on terms that provide us with the third-party software we require, provide adequate functionality in our products on terms that adequately protect our proprietary rights, or are commercially favorable to us. Our third-party development agreements contain restrictions on the use of our technology outside of the development process.

Failure to establish or maintain successful relationships with third-parties as appropriate or failure of these third-parties to fulfill their responsibilities could have an adverse effect on us. In addition, if these third-parties exclusively adopt a product or technology other than QAD software products or technology, or if these third-parties reduce their support of QAD software products and technology or increase such support for competitive products or technology, we could be adversely affected.

ACQUISITIONS AND INTEGRATION OF ACQUIRED BUSINESS AND INTELLECTUAL PROPERTY

We may make acquisitions or investments in new businesses, products or technologies that involve additional risks. As part of our business strategy, we have made, and expect to continue to make, acquisitions of businesses or investments in companies that offer complementary products, services and technologies. Such acquisitions or investments involve a number of risks, including the risks in assimilating the operations and personnel of acquired companies, realizing the value of the acquired assets relative to the price paid, distraction of management from our ongoing businesses and potential product disruptions associated with the sale of the acquired companies' products. These factors could have a material adverse effect on our business, financial condition and operating results. Consideration paid for any future acquisitions could include our stock. As a result, future acquisitions could cause dilution to existing shareholders and to earnings per share. Furthermore, we may incur significant debt to pay for future acquisitions or investments.

We might require additional capital to support business growth, and this capital might not be available. We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges or opportunities, including the need to develop new offerings or enhance our existing offerings, enhance our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

Our operations are international in scope, exposing us to additional risk. For the last three fiscal years, we derived approximately 60 percent of our total revenue from sales outside the United States. A significant aspect of our strategy is to focus on developing business in emerging markets. Of more than 6,100 licensed sites as of January 31, 2008, approximately 75 percent are outside the United States, in over 90 countries.

Our operating results could also be negatively impacted by a variety of other factors affecting our foreign operations, many of which are beyond our control. These factors include currency fluctuations, economic, political or regulatory conditions in a specific country or region, trade protection measures and other regulatory requirements. Additional risks inherent in international business activities generally include, among others:

- Longer accounts receivable collection cycles;
- Costs and difficulties of managing international operations and alliances;
- Greater difficulty enforcing intellectual property rights;
- Import or export requirements;
- Changes in political or economic conditions; and
- Changes in regulatory requirements or tax law.

We may experience foreign currency gains and losses. We conduct a portion of our business in currencies other than the United States dollar. Our revenues and operating results are adversely affected when the dollar strengthens relative to other currencies and are positively affected when the dollar weakens. Changes in the value of major foreign currencies, including the Euro, Australian dollar, British pound and the Thai baht relative to the United States dollar can significantly affect revenues and our operating results. Our foreign exchange risk is further discussed in Item 7A of this Annual Report on Form 10-K.

Economic, political and market conditions can adversely affect our revenue growth and profitability. Our business is influenced by a range of factors that are beyond our control and for which we have no comparative advantage in forecasting. These include: (i) the overall demand for enterprise computer software and services; (ii) conditions in the high technology and manufacturing industry sectors; (iii) general economic and business conditions; and (iv) general political developments, such as the war on terrorism. A general weakening of the global economy could delay and/or decrease customer purchases. In addition, the war on terrorism and the potential for other hostilities in various parts of the world continue to contribute to a climate of economic and political uncertainty that could adversely affect our revenue growth and results of operations.

RISKS DUE TO BUSINESS INTERRUPTIONS

If a business interruption occurs, our business could be seriously harmed. A substantial portion of our facilities, including our corporate headquarters and other critical business operations, are located near major earthquake faults. We also employ a third party to provide certain infrastructure related to our On Demand offerings. Although the facilities in which we host our computer systems, and those of our supplier, are designed to be fault tolerant and disaster recovery procedures are in place, the systems are susceptible to damage from fire, floods, earthquakes, power loss, telecommunications failures, the effect of software viruses, terrorist acts, acts of war and similar events. In addition, an occurrence of any of these events may cause damage or disruption to us and our employees, facilities, suppliers, distributors and customers, which could have a material adverse effect on our operations and financial results.

MARKET CONDITIONS

The enterprise application market has experienced significant consolidation and increased competition. This consolidation has included numerous mergers and acquisitions and, as a result, some prospective buyers are reluctant to purchase applications that could have a short lifespan due to a potential acquisition that could result in the application's life being abruptly cut short. QAD's controlled company status makes it highly unlikely that a hostile takeover of the company would occur. However, increased competition and consolidation in these markets is likely to result in price reductions, reduced operating margins and changes in market share, any one of which could adversely affect us. Several of our potential competitors enjoy substantial competitive advantages, such as greater name recognition and greater technological and financial resources.

We are subject to competitive attack on our existing customers. The majority of significant companies in our major mature markets already have an ERP system, either QAD Enterprise Applications or that of a competitor. QAD's customer list makes our customers attractive to our competitors who may elect to focus heavily on displacing our solutions within our customer base. If this practice were to intensify from the current business level, it would have an adverse impact on our ongoing revenues and our market reputation.

THE MARKET FOR OUR STOCK IS VOLATILE

The market prices for securities of technology companies, such as QAD, have been volatile. The market price of our common stock and the number of shares traded each day has occasionally varied greatly. In addition, the securities of many technology companies have experienced extreme price and volume fluctuations which have often been unrelated to the companies' operating performance. Because of these and other factors affecting our operating results, past financial performance should not be considered as an indicator of future stock performance.

As of January 31, 2008, QAD had 30.8 million shares of common stock outstanding, 5.6 million outstanding stock options and stock appreciation rights and 0.3 million restricted stock units outstanding, all under stock compensation plans. As a result, a substantial number of shares of common stock will be eligible for sale in the public market at various times in the future. Sales of substantial amounts of such shares could adversely affect the market price of our common stock.

Our stock price could become more volatile and investments could lose value. All of the factors discussed above as well as speculation in the press and the analyst community, changes in recommendations or earnings estimates by financial analysts, changes in analysts' valuation measures for our stock and market trends could affect our stock price. A significant drop in our stock price could also expose us to the risk of securities class actions lawsuits, which could result in substantial costs and divert management's attention and resources, resulting in an adverse affect on our business.

In addition, if the market for technology stocks, or the stock market in general, experiences uneven investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Any volatility in our stock price may result in litigation which may harm our business and the results of operations.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Failure to maintain effective internal controls could adversely affect our ability to meet our reporting requirements. Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent fraud. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to furnish a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. Internal controls over financial reporting may not prevent or detect misstatements because of inherent limitations, including the possibility of human error, the circumvention or overriding of controls or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent fraud, our operating results could be harmed. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the effectiveness of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed, we could fail to meet our reporting obligations, and there could be a material adverse effect on our stock price.

We are required to delay revenue recognition into future periods for portions of our license fee activity. Our entire worldwide business is subject to United States generally accepted accounting principles, commonly referred to as “U.S. GAAP.” Under those rules, we are required to defer revenue recognition for license fees in certain situations. Factors that are considered in revenue recognition include those such as vendor specific objective evidence (VSOE), products under development, the inclusion of other services and contingencies to payment terms.

We expect that we will continue to defer portions of our license fee activity because of these factors. The amount of license fees deferred may be significant and will vary each quarter depending on the mix of products sold in each market and geography, as well as the actual contract terms.

PRINCIPAL STOCKHOLDERS AND DEPENDENCE UPON KEY PERSONNEL

Our principal stockholders are also directors. As of March 31, 2008, Karl and Pamela Lopker jointly and beneficially owned approximately 60 percent of our outstanding common stock. Karl and Pamela Lopker currently constitute two of the seven members of the board of directors and are also officers of QAD in their capacity as CEO and President, respectively. On a combined basis, current directors and executive officers beneficially owned approximately 60 percent of the common stock as of March 31, 2008.

Karl and Pamela Lopker are generally not prohibited from selling a controlling interest in QAD to a third party. Their concentrated control could discourage others from initiating any potential merger, takeover or other change of control transaction. As a result, the market price of our common stock could be adversely affected.

We are a “controlled company”. Karl and Pamela Lopker, as husband and wife, own a majority of our common stock and we are a “controlled company” within the meaning of the rules of the NASDAQ. We are not required to comply with certain corporate governance rules of the NASDAQ that would otherwise apply to us as a listed company on the NASDAQ.

Specifically, we are not required to have a majority of independent directors on our board of directors and we are not required to have nominating and corporate governance and compensation committees composed of independent directors. Should the interests of Karl and Pamela Lopker differ from those of other shareholders, the other shareholders will not be afforded the protections of having a majority of directors on the board who are independent from our principal shareholders or our management.

We are dependent upon key personnel. Our future operating results depend in significant part upon the continued service of a relatively small number of key technical and senior management personnel, including Founder, Chairman of the Board and President, Pamela M. Lopker, and Chief Executive Officer, Karl F. Lopker, neither of whom is bound by an employment agreement.

Our future success also depends on our continuing ability to attract and retain other highly qualified technical and managerial personnel. The loss of any member of our key technical and senior management personnel or the inability to attract and retain additional qualified personnel could have an adverse effect on us. We do not currently have key-person insurance covering any of our employees.

IMPACT OF REGULATION

Our business is subject to changing regulations regarding corporate governance and public disclosure that have increased both our costs and the risk of noncompliance. We are subject to rules and regulations by various governing bodies, including the Securities and Exchange Commission, NASDAQ and the Public Company Accounting Oversight Board, which are charged with the protection of investors and the oversight of companies whose securities are publicly traded.

These laws, regulations and standards are subject to varying interpretations and their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. If we fail to address and comply with these regulations and any subsequent changes, our business may be harmed.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

QAD's corporate headquarters are located in Santa Barbara, California. The corporate headquarters are owned by QAD and consist of approximately 120,000 square feet situated on 28 acres of land.

In addition to the corporate headquarters, QAD owns a facility in Dublin, Ireland and leases over 40 offices throughout the world with lease commitment expirations occurring on various dates through fiscal year 2020. QAD's leased properties include research and development centers in the United States, Belgium, Ireland, Australia, China and India and additional facilities in the United States, France, Germany, Italy, Poland, Portugal, South Africa, Spain, Switzerland, The Netherlands, Turkey, United Kingdom, Australia, China, Hong Kong, India, Japan, Korea, Singapore, Thailand, Brazil, Mexico and Canada. QAD will seek to renew and expand lease commitments in the future as may be required. QAD anticipates that its current domestic and international facilities are substantially sufficient to meet its needs for at least the next 12 months.

ITEM 3. LEGAL PROCEEDINGS

We are not party to any material legal proceedings. We are from time to time 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 our consolidated financial position or results of operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

QAD common stock has been traded on the NASDAQ Global Market (NASDAQ) since our initial public offering in August 1997 (under the symbol QADI). The following table sets forth the low and high prices for QAD's common stock as reported by NASDAQ in each quarter of the last two fiscal years.

	<u>Low Price</u>	<u>High Price</u>
Fiscal 2008:		
Fourth quarter	\$ 8.25	\$ 9.88
Third quarter	7.57	9.39
Second quarter	7.90	9.71
First quarter	8.07	10.17
Fiscal 2007:		
Fourth quarter	\$ 7.64	\$ 8.80
Third quarter	7.08	8.85
Second quarter	6.77	8.12
First quarter	7.28	8.25

Holders

As of March 31, 2008, there were approximately 300 shareholders of record of our common stock, although there is a much larger number of beneficial owners.

Dividends

We declared four quarterly dividends in fiscal 2008 of \$0.025 per share of common stock. Continuing quarterly cash dividends are subject to profitability measures and liquidity requirements of QAD.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Stock repurchase activity during the three months ended January 31, 2008 was as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)</u>
11/1/07 - 11/30/07	29,800	\$ 8.56	29,800	744,200
12/1/07 - 12/31/07	217,700	\$ 8.69	217,700	526,500
1/1/08 - 1/31/08	262,800	\$ 8.97	262,800	263,700

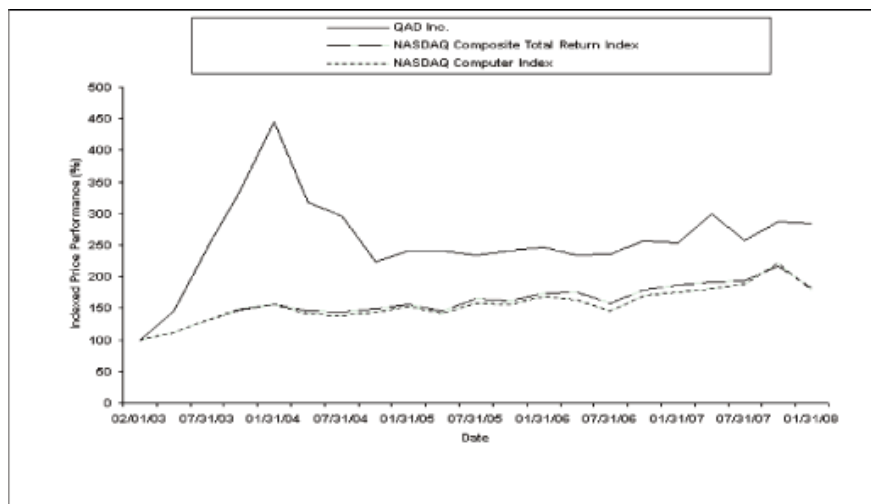
- (1) In September 2007, the Board of Directors authorized an open market repurchase program for one year to buy up to one million shares of QAD common stock. As of January 31, 2008, 736,300 shares had been repurchased under the program.

STOCKHOLDER RETURN PERFORMANCE GRAPH

The line graph below compares the yearly percentage change in the cumulative total stockholder return on QAD's common stock with the cumulative total return of the NASDAQ Composite Total Return Index and the NASDAQ Computer Index, on a quarterly basis, for the period beginning February 1, 2003 and ending January 31, 2008.

The graph assumes that \$100 was invested in QAD common stock on February 1, 2003 and that all dividends were reinvested. Historic stock price performance should not be considered indicative of future stock price performance.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG QAD INC., THE NASDAQ COMPOSITE TOTAL RETURN INDEX, AND THE NASDAQ COMPUTER INDEX



Measurement Periods (Quarterly from Fiscal Year 2004 through Fiscal Year 2008)

	QAD Inc.	NASDAQ Composite Total Return Index	NASDAQ Computer Index
02/01/03	100.00	100.00	100.00
04/30/03	146.20	110.86	110.92
07/31/03	245.90	131.35	131.29
10/31/03	336.47	146.28	148.37
01/31/04	444.68	156.42	156.49
04/30/04	316.72	145.37	139.21
07/31/04	295.74	142.88	139.17
10/31/04	223.10	149.52	144.08
01/31/05	241.64	156.14	151.76
04/30/05	240.43	145.48	141.65
07/31/05	234.43	165.40	158.33
10/31/05	240.74	160.52	155.94
01/31/06	245.58	174.56	169.10
04/30/06	233.54	175.83	163.06
07/31/06	234.99	158.34	146.22
10/31/06	257.23	179.17	170.59
01/31/07	253.87	186.53	176.18
04/30/07	299.62	191.16	180.09
07/31/07	256.54	192.77	187.11
10/31/07	286.70	216.45	221.85
01/31/08	284.22	180.93	178.02

ITEM 6. SELECTED FINANCIAL DATA

	Years Ended January 31, ⁽¹⁾				
	2008	2007 ⁽⁶⁾	2006 ^{(5), (6)}	2005 ⁽⁴⁾	2004
(in thousands, except per share data)					
STATEMENTS OF OPERATIONS DATA:					
Revenues:					
License fees	\$ 61,491	\$ 54,425	\$ 57,926	\$ 60,545	\$ 69,029
Maintenance and other	128,183	122,740	117,139	113,729	114,686
Services	73,073	58,422	50,429	56,932	46,937
Total revenue	262,747	235,587	225,494	231,206	230,652
Operating income	5,588	8,137	15,625	23,386	17,995
Net income	\$ 5,416	\$ 7,276	\$ 20,539	\$ 24,483	\$ 16,317
Basic net income per share	\$ 0.17	\$ 0.22	\$ 0.63	\$ 0.72	\$ 0.49
Diluted net income per share	\$ 0.17	\$ 0.22	\$ 0.61	\$ 0.70	\$ 0.47
Cash dividends declared per common share	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.18	\$ —
BALANCE SHEET DATA:					
Cash and equivalents	45,613	54,192	59,971	55,289	46,784
Working capital	8,846	14,762	20,694	27,559	5,978
Total assets	235,893	227,132	207,331	207,093	189,828
Current portion of long-term debt ⁽²⁾	274	272	243	1,725	11,987
Long-term debt ⁽³⁾	16,998	17,271	17,546	23,911	7,720
Total stockholders' equity	72,595	76,572	72,159	64,037	47,113

- (1) Historical results of operations are not necessarily indicative of future results. Refer to Item 1A entitled "Risk Factors" for discussion of factors that may impact future results.
- (2) Fiscal 2004 includes \$10.5 million related to a construction loan to finance the construction of our company headquarters. We converted the construction loan to a permanent loan upon completion of the construction project in fiscal 2005.
- (3) Fiscal 2005 includes \$18.0 million of financing related to our company headquarters in Santa Barbara, California, of which \$17.7 million was included in long term debt as of January 31, 2005 and secured by real property.
- (4) Fiscal 2005 includes \$6.5 million tax benefit from the reversal of valuation allowances.
- (5) Fiscal 2006 includes \$11.5 million tax benefit from the reversals of valuation allowances and contingency reserves.
- (6) In accordance with Staff Accounting Bulletin No. 108, GAAP results for fiscal years 2007 and 2006 have been revised from previously reported amounts. The impact of the revisions were determined to be immaterial to each of these years and resulted in reductions to net income of \$0.4 million and \$0.2 million in fiscal 2007 and 2006, respectively and a reduction to diluted EPS of \$0.01 for both the fiscal years 2007 and 2006. For further explanation of the revisions to our prior period financial statements, see note 1 "Summary of Business and Significant Accounting Policies" within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

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

FORWARD LOOKING STATEMENTS

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements. These statements typically are preceded or accompanied by words like "believe," "anticipate," "expect" and words of similar meaning. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Item 1A entitled "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. We undertake no obligation to revise or update or publicly release the results of any revision or update to these forward-looking statements. Readers should carefully review the risk factors and other information described in this Annual Report on Form 10-K and other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q to be filed by QAD in fiscal 2009.

INTRODUCTION

The following discussion should be read in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

OVERVIEW

QAD Inc. was founded in 1979 and is a provider of enterprise software applications, professional services and application support that address the requirements of manufacturing companies primarily in six target industries. With a goal of delivering software applications that enable its customers to operate their businesses more efficiently, embrace emerging business practices and comply with legislative requirements, QAD has built a customer base of more than 6,100 licensed sites that support their businesses using QAD software and services. QAD employs over 1,500 people around the world who develop products and work with customers to implement and support QAD Enterprise Applications. QAD's vision for the future of manufacturing is a market where all suppliers, manufacturers and customers collaborate seamlessly to eliminate inefficiencies and automate processes at all stages of the supply chain. This vision for what QAD terms the *Perfect Lean Market* is key to QAD's product direction and is unique in the enterprise software industry.

QAD Enterprise Applications, which includes modules formerly marketed as MFG/PRO, is QAD's core product suite. QAD Enterprise Applications has been developed to address the needs of manufacturers in six principal industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. We develop our products and services through consultation with customers and partners, ensuring that we are knowledgeable of requirements in the markets we serve. A key focus for QAD is addressing the needs of global manufacturers, enabling them to implement software applications to run their businesses almost anywhere in the world and meet local requirements while maintaining control of their business as a whole.

QAD has a design philosophy of developing software applications that are easy to implement as well as easy to use. Combined with focused implementation tools and methodology, we believe this design philosophy allows customers to implement QAD solutions faster than other competing solutions at lower operating costs over time.

In addition to the delivery of QAD Enterprise Applications, QAD has developed a global services and application support capability with over 600 skilled personnel located throughout the world. QAD's services and support capabilities are critical in delivering the value of its solutions to customers.

QAD has been at the leading edge of a number of technologies aimed at supporting its vision for the Perfect Lean Market. For example, QAD provides collaborative supply chain capabilities delivered on demand through its Supply Visualization service. QAD has built on this method of delivering its software applications and in 2007 announced the capability to deliver QAD Enterprise Applications in an on demand deployment environment. With QAD On Demand, customers can connect to their application over a network or via the Internet and do not have to provide or support their own computer systems. We see the on demand deployment option gaining acceptance in the market. QAD has considered this trend in delivering our software applications to address customers' requirements.

CRITICAL ACCOUNTING POLICIES

We consider certain accounting policies related to revenue recognition, accounts receivable allowances, goodwill and intangible assets, capitalized software development costs, valuation of deferred tax assets and tax contingency reserves and stock-based compensation expense to be critical policies due to the significance of these items to our operating results and the estimation processes and management judgment involved in each. Historically, estimates described in our critical accounting policies that have required significant judgment and estimation on the part of management have been reasonably accurate.

- *Revenue Recognition.* We recognize revenue in accordance with the American Institute of Certified Public Accountant's Statement of Position (SOP) No. 97-2, "Software Revenue Recognition," (SOP No. 97-2) as modified by SOP No. 98-9, "Modification of SOP No. 97-2, Software Revenue Recognition with Respect to Certain Transactions" and Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition."

We recognize revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service or product has been delivered to the customer and no uncertainties exist surrounding product acceptance; (3) the collection of our fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable.

Our typical payment terms vary by region. Occasionally, payment terms of up to one year may be granted for software license fees to customers with an established history of collections without concessions.

License Revenue. Provided all other revenue recognition criteria have been met, we recognize license revenue on delivery using the residual method. When a license agreement includes one or more elements to be delivered at a future date, we recognize revenue in one of two ways. If vendor-specific objective evidence (VSOE) of the fair value of all undelivered elements exists, the revenue for the undelivered elements is deferred and the residual amount is allocated to the license revenue and recognized when the above criteria have been met. If VSOE for the fair value of the undelivered elements does not exist, revenue is deferred and recognized when VSOE of fair value for undelivered elements has been established or when delivery of all elements occurs. VSOE of the fair value is determined based on historical evidence of stand-alone sales of these elements to customers.

Revenue from our subscription product offerings, including our On Demand product, is recognized ratably over the contract period when the customer does not have the right to take possession of the software. For subscription arrangements where the customer has the right and ability to take possession of the software, revenue is recognized in accordance with SOP No. 97-2 using the residual method.

Our standard products do not require significant production, modification or customization of software or services that are essential to the functionality of the software. Certain judgments affect the application of our license revenue recognition policy, such as the assessment of collectibility, for which we review a customer's credit worthiness and our historical experience with that customer, as applicable.

Maintenance Revenue. Revenue from ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period on a when-and-if available basis. Product support includes Internet access to technical content, as well as Internet and telephone access to technical support personnel.

Services Revenue. Revenue from technical and implementation services is recognized as services are performed for time-and-materials contracts. At times our license and support arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from software license revenues, because the arrangements qualify as service transactions as defined in SOP 97-2 and we have VSOE of the fair value for services. When the services are determined to not have been sold separately from our license and support arrangements, we allocate revenue to services based on the VSOE determined value of the services. Revenues for consulting services are generally recognized as the services are performed based on time and materials incurred during each reporting period. If there is a significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is resolved.

On occasion, we enter into fixed-price services arrangements. We estimate the proportional performance on contracts with fixed or “not to exceed” fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

When an arrangement does not qualify for separate accounting of the software license and consulting transactions, the software license revenue is recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method.

- *Accounts Receivable Allowances.* We review the collectibility of our accounts receivable each period by analyzing balances based on age and record specific allowances for any balances that we determine may not be fully collectible due to the inability of the customer to pay. We also provide an additional reserve based on historical data including analysis of write-offs and other known factors. The allowance for sales adjustments primarily relates to reserves required to adjust revenue to the amount that will actually be realized. Provisions to the allowance for doubtful accounts are included in bad debt expense in general and administrative expenses and provisions for sales adjustments are recorded against revenue. Actual results may differ from our estimates for a variety of reasons.
- *Goodwill and Intangible Assets.* Goodwill and other intangible assets at January 31, 2008 were \$22.6 million and \$1.1 million, respectively, and accounted for 10% of our total assets. All of our goodwill and intangible assets have been accounted for under the provisions of Statement of Financial Accounting Standards (SFAS) 142, “Goodwill and Other Intangible Assets” (SFAS 142). The excess cost of the acquisition over the fair value of the net assets acquired is recorded as goodwill. SFAS 142 requires that goodwill and intangible assets deemed to have indefinite lives not be amortized, but rather be tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation under the provisions of SFAS 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144).

Goodwill is tested for impairment at least annually utilizing an “income approach” methodology, which utilizes a discounted cash flow method to determine the fair value of the reporting unit based on the present value of future benefits the reporting unit is expected to generate, and the “publicly-traded guideline company method” or the “market approach,” which utilizes financial and valuation ratios of publicly traded companies that are considered comparable to QAD to determine if our valuation ratios are a fair measure of QAD’s enterprise value. In assessing the recoverability of goodwill and intangible assets, we estimate future revenue and cash flow attributable to our reporting units and other factors in determining the fair value of our reporting units. These estimates contain management’s best estimates, using appropriate and customary assumptions available at the time. For further discussion of goodwill, see note 4 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

Other intangible assets are tested for impairment when, in our judgment, events or changes in circumstances suggest that the carrying value of an asset may not be fully recoverable in accordance with SFAS 144. Other intangible assets arise from business combinations and consist of customer relationships, restrictive covenants related to employment agreements and trade names that are amortized, on a straight-line basis, over periods of up to five years. For further discussion of other intangible assets, see note 4 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

- *Capitalized Software Development Costs.* We capitalize software development costs incurred once technological feasibility has been achieved in the form of a working model. These costs are primarily related to the localization and translation of our products. A working model is defined as an operative version of the computer software product that is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product and is ready for initial customer testing. We also capitalize software purchased from third parties or through business combinations as acquired software technology if such software has reached technological feasibility. Capitalized software costs are amortized on a product-by-product basis and charged to “Cost of license fees”. The amortization is the greater of straight-line basis over three years, the expected useful life, or computed using a ratio of current revenue for a product compared to the estimated total of current and future revenues for that product. We periodically compare the unamortized capitalized software development costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset is reported as a charge to the statement of income. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may be required to recognize write-offs for these assets.
- *Valuation of Deferred Tax Assets and Tax Contingency Reserves.* SFAS 109, “Accounting for Income Taxes” (SFAS 109), requires that the carrying value of our deferred tax assets reflects an amount that is more likely than not to be realized. At January 31, 2008, we had \$22.7 million of deferred tax assets, net of valuation allowances, consisting of \$36.4 million of gross deferred tax assets offset by valuation allowances of \$13.7 million. In assessing the likelihood of realizing tax benefits associated with deferred tax assets and the need for a valuation allowance, we consider the weight of all available evidence, both positive and negative, including expected future taxable income and tax planning strategies that are both prudent and feasible. There was a net decrease of valuation allowances recorded in fiscal 2008 of \$0.2 million. Should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to deferred tax assets would increase tax expense in the period such determination was made.

Effective February 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109” (FIN 48). Under FIN 48, we recognize a tax position when we determine that it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions that are more likely than not to be sustained, we measure the tax position at the largest amount of benefit that has a greater than 50 percent likelihood of being realized when it is ultimately settled. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition with respect to tax positions. We reflect interest and penalties related to income tax liabilities as income tax expense.

We have reserves for taxes to address potential exposures involving tax positions that could be challenged by taxing authorities, even though we believe that the positions taken on previously filed tax returns are appropriate. The tax reserves are reviewed as circumstances warrant and adjusted as events occur that affect our potential liability for additional taxes. We are subject to income taxes in the U.S. and in numerous foreign jurisdictions, and in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain.

- *Stock-based Compensation Expense.* SFAS 123 (revised 2004), “Share-Based Payment” (SFAS 123R) requires that share-based payment transactions with employees be accounted for using a fair-value-based method and expensed ratably over the vesting period of the stock instrument.

Stock-based compensation expense is based on the fair values of all stock-based awards as of the grant date. Determining the expense of stock-based awards at the grant date requires judgment, including estimating volatility, the expected life of the award, the percentage of awards that will be forfeited and other inputs. If actual forfeitures differ significantly from the estimates, stock-based compensation expense and our results of operations could be materially impacted.

Equity instruments issued to non-employees in exchange for services are recorded in accordance with the provisions of Emerging Issues Task Force Issue No. 96-18, “Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” (EITF 96-18). Under this guidance, the fair value of the equity instruments is re-measured each period until the instruments vest. The incremental change is recorded as an expense in the period in which the change occurred.

RECENT ACCOUNTING STANDARDS

Fair Value Measurements

The FASB has released two statements which address fair value accounting. SFAS 157, “Fair Value Measurements” (SFAS 157), defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115” (SFAS 159), allows an entity to elect to measure many financial instruments and certain other items at fair value. Both statements are effective for fiscal 2009. The FASB has deferred the effective date of SFAS 157 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not measured at fair value on a recurring basis to fiscal years beginning after December 15, 2008. We do not expect the adoption of these statements to have a material effect on our consolidated financial statements.

Business Combinations

In December 2007, the FASB issued SFAS 141 (revised 2007), “Business Combinations” (SFAS 141R). The objective of the Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R requires that all business combinations be accounted for by applying the acquisition method (previously referred to as the purchase method), and most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in business combinations to be recorded at “full fair value”. SFAS 141R also broadens the definition of a business and changes the treatment of direct acquisition-related costs from being included in the purchase price to instead being generally expensed if they are not costs associated with issuing debt or equity securities. SFAS 141R is effective beginning February 1, 2009, and will be applied prospectively to any new business combination.

Minority Interests

In December 2007, the FASB issued SFAS 160, “Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, amendment of ARB 51” (SFAS 160). The objective of the Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 specifies that noncontrolling interests (previously referred to as minority interests) be reported as a separate component of equity, not as a liability or other item outside of equity, which changes the accounting for transactions with noncontrolling interest holders. SFAS 160 is effective beginning February 1, 2009, and will be applied prospectively to all noncontrolling interests, including any that arose before that date.

RESULTS OF OPERATIONS

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

	Years Ended January 31,		
	2008	2007	2006
Revenue:			
License fees	23%	23%	26%
Maintenance and other	49	52	52
Services	28	25	22
Total revenue	100	100	100
Costs and expenses:			
Cost of license fees	4	4	3
Cost of maintenance, service and other revenue	38	36	36
Sales and marketing	27	27	27
Research and development	16	17	15
General and administrative	13	13	12
Amortization of intangibles from acquisitions	—	—	—
Total costs and expenses	98	97	93
Operating income	2	3	7
Other income	—	(2)	—
Income before income taxes	2	5	7
Income tax expense (benefit)	—	2	(2)
Net income	2%	3%	9%

Comparison of fiscal 2008 revenue to fiscal 2007

Total revenue for fiscal 2008 was \$262.7 million, an increase of \$27.1 million, or 12%, from \$235.6 million in fiscal 2007. This increase in total revenue was attributable to increases in all revenue categories. Our customers are widely dispersed and no single customer accounted for more than 10% of total revenue in any of the last three fiscal years. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 revenue would have been approximately \$255.1 million, representing an increase of \$19.5 million, or 8%. All revenue categories were positively impacted by currency fluctuations in fiscal 2008, reflecting the impact of the weakening U.S. dollar when compared to other currencies. These fluctuations were primarily due to favorable fluctuations in the euro, Australian dollar, Brazilian real and Thai baht. Revenue outside the North America region as a percentage of total revenue was 56% during fiscal 2008, compared to 57% during fiscal 2007. While revenue increased year over year in all geographic regions, North America and Asia Pacific experienced the largest increases in revenue. In fiscal 2008, revenue from sales of our acquired products from our fiscal 2007 acquisitions of Precision and FBO Systems, Inc. (FBOS), contributed approximately \$13.9 million to total revenue. In fiscal 2007, revenue from sales of these products was included from the acquisition date and contributed \$3.2 million to total revenue.

License revenue was \$61.5 million for fiscal 2008, an increase of \$7.1 million, or 13%, from \$54.4 million in fiscal 2007. Sales from Precision and FBOS acquired products contributed \$4.3 million in license revenue in fiscal 2008 compared to \$0.4 million in fiscal 2007. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 license revenue would have been approximately \$59.9 million, representing a \$5.5 million, or 10%, increase from last year. All of our geographic regions experienced increased license revenue, with the largest increase in the Asia Pacific region. One of the metrics that management uses to measure license revenue performance is the number of customers which have placed sizable license orders in the period. In fiscal 2008, 46 customers placed license orders totaling more than \$0.3 million, of which nine exceeded \$1.0 million. This compared to 36 customers who placed license orders totaling more than \$0.3 million in fiscal 2007, four of which exceeded \$1.0 million. Discounts granted to customers for software licenses remained consistent during fiscal 2008 when compared to fiscal 2007.

Products are generally shipped as orders are received or within a short period thereafter and, accordingly, we have historically operated with little or no license backlog. Because of the generally short cycle between order and shipment, we believe that our backlog as of any particular date is not significant or meaningful.

Maintenance and other revenue was \$128.2 million for fiscal 2008, representing an increase of \$5.5 million, or 4%, in comparison to \$122.7 million for fiscal 2007. Sales from Precision and FBOS acquired products contributed \$2.8 million in maintenance and other revenue in fiscal 2008 compared to \$0.3 million in fiscal 2007. Holding exchange rates constant to those prevailing in fiscal 2007, fiscal 2008 maintenance and other revenue would have been approximately \$125.4 million, representing a \$2.7 million, or 2%, increase over last year, due in part to increases related to additional license sales during the current year partially offset by cancellations. Year over year, maintenance and other revenue increased in the North America and Asia Pacific geographic regions and were relatively unchanged in the Latin America and Europe, Middle East and Africa (EMEA) geographic regions. One of the ways management measures our success in securing contract renewals is by measuring the number of customer sites with active contracts as of the end of the previous reporting period and comparing this to the number of those same customers that have renewed, or are in the process of renewing, as of the current period end. Our maintenance contract renewal rate has remained consistent, in excess of 90%, for fiscal years 2008, 2007 and 2006.

Services revenue was \$73.1 million for fiscal 2008, representing an increase of \$14.7 million, or 25%, when compared to last year at \$58.4 million. Sales from Precision and FBOS acquired products contributed \$6.8 million in services revenue in fiscal 2008 compared to \$2.5 million in fiscal 2007. Holding exchange rates constant to those prevailing during fiscal 2007, fiscal 2008 services revenue would have been approximately \$69.8 million, reflecting an \$11.4 million, or 20%, increase from last year. Services revenue increased across all geographic regions year over year except for the EMEA region which remained relatively unchanged.

Comparison of fiscal 2007 revenue to fiscal 2006

Total revenue for fiscal 2007 was \$235.6 million, an increase of \$10.1 million, or 4%, from \$225.5 million in fiscal 2006. This increase was primarily due to higher services and maintenance and other revenue, offset by lower license revenue. Holding foreign currency exchange rates constant to fiscal 2006, fiscal 2007 revenue would have been approximately \$234.1 million, representing an increase of \$8.6 million, or 4%. All revenue categories were positively impacted by currency fluctuations in fiscal 2007, primarily due to favorable fluctuations in the Brazilian real, Thai baht and euro, partially offset by unfavorable fluctuations in the Japanese yen. Revenue outside the North America region as a percentage of total revenue was 57% during fiscal 2007, compared to 58% during fiscal 2006. Revenue increased year over year in all geographic regions except Asia Pacific. Revenue was favorably impacted by the acquisitions of Precision and FBOS. Revenue from sales of their acquired products were included from the acquisition date and contributed approximately \$3.2 million to total revenue, including approximately \$0.4 million in license revenue, \$0.3 million in maintenance and other revenue and \$2.5 million in services during fiscal 2007.

License revenue was \$54.4 million for fiscal 2007, a decrease of \$3.5 million, or 6%, from \$57.9 million in fiscal 2006. Holding foreign currency exchange rates constant to fiscal 2006, fiscal 2007 license revenue would have been approximately \$54.2 million, representing a \$3.7 million, or 6%, decrease from fiscal 2006. We experienced decreases in our North America, Asia Pacific and Latin America geographic regions, partially offset by an increase in our EMEA region. 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 fiscal 2007, 36 customers each placed aggregate license orders totaling more than \$0.3 million, compared to 35 customers in fiscal 2006. Not including orders greater than \$2 million (of which there was one in fiscal 2007 and three in fiscal 2006), our software license discounts in fiscal 2007 were comparable to fiscal 2006.

Maintenance and other revenue was \$122.7 million for fiscal 2007, representing an increase of \$5.6 million, or 5%, in comparison to \$117.1 million for fiscal 2006. Holding exchange rates constant to those prevailing in fiscal 2006, fiscal 2007 maintenance and other revenue would have been approximately \$122.2 million, representing a \$5.1 million, or 4%, increase over fiscal 2006, due in part to increases related to additional license sales during fiscal 2007 partially offset by cancellations. Maintenance and other revenue increased across all geographic regions year over year.

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Services revenue was \$58.4 million for fiscal 2007, representing an increase of \$8.0 million, or 16%, when compared to fiscal 2006 at \$50.4 million. Holding exchange rates constant to those prevailing during fiscal 2006, fiscal 2007 services revenue would have been approximately \$57.8 million, reflecting a \$7.4 million, or 15%, increase from the previous year. Services revenue increased across all geographic regions year over year. Contributing to the increase in services revenue was revenue earned by companies we acquired during fiscal 2007. Two of those acquisitions, Precision and FBOS, generated a total of \$2.5 million in services revenue during fiscal 2007 in periods subsequent to the acquisition.

Comparison of costs and expenses—fiscal 2008, 2007 and 2006

We adopted SFAS 123R on February 1, 2006, the beginning of our fiscal 2007. We elected the modified prospective transition method as permitted by SFAS 123R and accordingly prior periods' results have not been restated to reflect the impact of SFAS 123R. Under this method, we recognize stock-based compensation for all new awards and modifications to existing awards that are granted on or subsequent to February 1, 2006 and all previously granted awards that vest on or subsequent to February 1, 2006. Stock-based compensation is measured based on the fair values of all stock-based awards on the dates of grant. For the year ended January 31, 2006, we accounted for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations including FIN 44, "Accounting for Certain Transactions Involving Stock Compensation." Accordingly, compensation expense was recorded on the date of grant only if the then current market price of the underlying stock exceeded the exercise price or in connection with the modification to outstanding awards and/or changes in grantee status.

The following table sets forth, for the periods indicated, reported stock compensation expense for the years ended January 31, 2008, 2007 and 2006.

<i>(in thousands)</i>	Years Ended January 31,		
	2008	2007	2006
Stock-based compensation expense:			
Cost of maintenance, service and other revenue	\$ 1,104	\$ 990	\$ 110
Sales and marketing	1,458	1,290	—
Research and development	861	918	—
General and administrative	2,783	2,263	98
Total stock-based compensation expense	<u>\$ 6,206</u>	<u>\$ 5,461</u>	<u>\$ 208</u>

Total Cost of Revenue. Total cost of revenue (combined cost of license fees and cost of maintenance, services and other revenue) was \$110.9 million for fiscal 2008, \$93.5 million for fiscal 2007 and \$88.7 million for fiscal 2006, and as a percentage of total revenue was 42% for fiscal 2008, 40% for fiscal 2007 and 39% for fiscal 2006. Holding exchange rates constant to the most recent preceding fiscal year, total cost of revenue would have been approximately \$106.8 million and \$92.7 million for fiscal 2008 and 2007, respectively, reflecting the impact of the weakening U.S. dollar in comparison to other currencies. At constant exchange rates, the total cost of revenue percentage for fiscal 2008 and 2007 would have been unchanged at 42% and 40%, respectively. Changes in the cost of revenue as a percentage of total revenue was primarily due to changes in revenue mix as services revenue, which has lower margins, grew at a higher rate than license and maintenance and other revenue.

The non-currency related increase in total cost of revenue of \$13.3 million from fiscal 2007 to fiscal 2008 was primarily due to increased services costs incurred to generate additional services revenue. Services related costs consisted of higher personnel costs of \$7.0 million, primarily due to increased headcount and higher bonus expense. In addition, third party contractor expenses and travel expenses increased \$2.2 million and \$2.0 million, respectively.

Total cost of revenue increased \$4.8 million from fiscal 2006 to fiscal 2007. Holding foreign currency exchange rates constant to those in fiscal 2006, total cost of revenue would have increased approximately \$4.0 million. At constant exchange rates, the total cost of revenue percentage for fiscal 2007 and 2006 would have been 40% and 39%, respectively. Changes in the cost of revenue as a percentage of total revenue were primarily due to changes in revenue mix as license revenues carry higher margins in comparison to support and services revenues.

Cost of revenue included employee separation costs of \$0.4 million, \$0.2 million and \$1.2 million in fiscal 2008, 2007 and 2006, respectively. These costs related predominantly to EMEA services employees in fiscal 2008, North America support employees in fiscal 2007 and EMEA services employees in fiscal 2006.

Sales and Marketing. Sales and marketing expense was \$71.0 million, \$63.8 million and \$61.4 million for fiscal 2008, 2007 and 2006, respectively. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 sales and marketing expense would have been approximately \$68.5 million, representing a non-currency related increase of \$4.7 million, or 7%. The increase of \$4.7 million from fiscal 2007 to fiscal 2008 primarily related to higher commissions and bonuses of \$3.4 million due to accelerators associated with our higher revenue levels and higher sales agent commissions of \$0.8 million. Fiscal 2008 also included increased salary expense of \$1.4 million associated with an increase in the number of sales and marketing employees, higher travel expenses of \$0.5 million and increased recruiting expenses of \$0.4 million. Higher travel and recruiting expenses were primarily due to the increased hiring and training of our sales and marketing team. These increases were partially offset by lower marketing expense of \$1.6 million, due in part to not holding a European Explore Conference in fiscal 2008, and lower severance of \$0.5 million.

Sales and marketing expense increased \$2.4 million from fiscal 2006 to fiscal 2007. Holding foreign currency exchange rates constant to those in fiscal 2006, total sales and marketing expense would have increased approximately \$1.8 million from \$61.4 million. The \$1.8 million increase from fiscal 2006 to fiscal 2007 primarily related to higher commissions and bonuses of \$1.4 million. Fiscal 2007 also included stock compensation expense of \$1.3 million. Sales and marketing expenses had increases in travel of \$0.6 million, systems of \$0.3 million and marketing of \$0.2 million. These increases in expenses were partially offset by decreases of \$0.8 million in recruiting, \$0.6 million in severance and \$0.6 million in sales agent fees.

Research and Development. Research and development expense, which is managed on a global basis, was \$41.1 million, \$40.1 million and \$32.7 million in fiscal 2008, 2007 and 2006, respectively. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 R&D expense would have been approximately \$39.7 million, representing a decrease of \$0.4 million, or 1%. The decrease of \$0.4 million from fiscal 2007 to fiscal 2008 was primarily related to lower travel costs of \$0.5 million.

Research and development expense increased \$7.4 million from fiscal 2006 to fiscal 2007. Holding foreign currency exchange rates constant to those in fiscal 2006, total research and development expense would have increased approximately \$7.2 million. The increase of \$7.2 million from fiscal 2006 to fiscal 2007 was mainly related to an increase in personnel expenses of \$6.3 million due to increased headcount. During fiscal 2007, we expanded the headcount at our R&D centers in China and India. We also acquired R&D headcount, primarily from the Soft Cell N.V. (Soft Cell) and Precision acquisitions. In addition, fiscal 2007 included stock compensation expense of \$0.9 million.

General and Administrative. General and administrative expense was \$33.5 million, \$29.7 million, and \$26.8 million for fiscal 2008, 2007 and 2006, respectively. Holding foreign currency exchange rates constant to fiscal 2007, fiscal 2008 general and administrative expense would have been approximately \$32.6 million, representing an increase of \$2.9 million, or 10%. The \$2.9 million increase from fiscal 2007 to 2008 was primarily due to higher personnel expenses of \$1.9 million, primarily related to salary and bonus expense, and \$1.4 million in higher professional fees related to tax consulting. These amounts were partially offset by lower bad debt expense of \$0.4 million.

General and administrative expenses increased \$2.9 million from fiscal 2006 to fiscal 2007. Holding foreign currency exchange rates constant to those in fiscal 2006, general and administrative expenses would have increased approximately \$2.7 million. The \$2.7 million increase from fiscal 2006 to 2007 was primarily related to higher stock compensation expense in fiscal 2007 of \$2.1 million. In addition, personnel expenses increased \$1.3 million primarily related to increased headcount throughout all regions.

Amortization of Intangibles from Acquisitions. Amortization of intangibles from acquisitions totaled \$0.7 million, \$0.4 million and \$0.3 million in fiscal years 2008, 2007 and 2006, respectively. The year over year changes were due to the intangible assets acquired during fiscal 2007 from our acquisitions of Precision, FBOS and Bisgen Ltd. (Bisgen). Amortization increased slightly from fiscal 2006 to fiscal 2007 due to a partial year of amortization from the acquisitions in fiscal 2007 and the increase from fiscal 2007 to fiscal 2008 was due to fiscal 2008 being the first full year of amortization. We expect amortization expense for intangibles in fiscal 2009 to be similar to amortization expense in fiscal 2008.

Total Other Income. Total other income was \$0.2 million, \$3.3 million and \$0.3 million in fiscal 2008, 2007 and 2006, respectively. The \$3.1 million unfavorable change from fiscal 2007 to fiscal 2008 was primarily related to a \$2.6 million unfavorable foreign exchange change caused by the weakening of the U.S. dollar against foreign currencies. Lower interest income of \$0.3 million also contributed to the decrease. Lower interest income was primarily due to lower average balances in our investment accounts.

The \$3.0 million favorable change from fiscal 2006 to fiscal 2007 was due to higher interest income of \$1.1 million related to both higher interest rates and higher balances in our investment accounts, lower interest expense of \$0.5 million primarily due to lower debt balances as we repaid our line of credit in the second quarter of fiscal 2006 and foreign currency exchange gains of \$1.6 million, primarily related to favorable changes in the euro, Mexican peso and Japanese yen, partially offset by the unfavorable change in the Brazilian real.

Income Tax Expense. We recorded income tax expense of \$0.3 million and \$4.1 million in fiscal 2008 and fiscal 2007, respectively, and an income tax benefit of \$4.6 million in fiscal 2006. Our income tax expense decreased from fiscal 2007 to fiscal 2008 primarily due to a decrease in the effective rate associated with changes in the jurisdictional mix of income and research and development credits that were applied in the fourth quarter of fiscal 2008.

Amounts in fiscal 2006 reflect the reversal of tax valuation allowances of \$10.5 million. We have not provided tax benefits for certain jurisdictions in loss positions due to management's determination that it was more likely than not that tax benefits associated with previously reserved net deferred tax assets in such jurisdictions would not be realized.

For further information regarding income taxes, see note 7 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations and met our capital expenditure requirements through cash flows from operations, the sale of equity securities and borrowings.

Our principal sources of liquidity are cash flows generated from operations and our cash and equivalents balances. Cash and cash equivalents, including restricted cash, were \$45.6 million and \$56.8 million at January 31, 2008 and 2007, respectively. At January 31, 2008 and 2007, our cash equivalents consisted of registered money market funds and time delineated deposits. We had no investments in securities with an underlying exposure to sub-prime mortgages nor did we hold auction rate notes or similar securities. Approximately 60% of our cash, cash equivalents and restricted cash were held in U.S. dollar denominated accounts as of January 31, 2008 and 2007.

Our working capital decreased to \$8.8 million as of January 31, 2008 from \$14.8 million as of January 31, 2007. The decrease in working capital of \$6.0 million resulted from a \$15.3 million increase in current liabilities partially offset by a \$9.4 million increase in current assets. The \$15.3 million increase in current liabilities was primarily due to a \$12.3 million increase in deferred revenue, a result of our increased sales in fiscal 2008 including higher annual maintenance billings. In addition, other current liabilities increased \$2.5 million due to higher compensation related accruals.

The \$9.4 million increase in current assets was primarily due to a \$14.2 million increase in accounts receivable, a result of higher billings in fiscal 2008 compared to fiscal 2007, and a \$6.4 million increase in other current assets primarily related to an increase in our current deferred tax assets. These increases were partially offset by an \$11.2 million decrease in cash, cash equivalents and restricted cash. The changes in cash, cash equivalents and restricted cash included stock repurchases of \$18.7 million, capital expenditures of \$5.2 million, the first Precision anniversary payment of \$3.7 million and dividends paid of \$3.2 million. These cash outflows were partially offset by cashflow from operations of \$15.9 million and cash received from the exercise of stock awards of \$2.9 million.

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As of January 31, 2007, we had restricted cash of \$2.6 million held in an escrow account related to the Precision acquisition. During fiscal 2008, \$1.5 million of restricted cash was returned to QAD and \$1.1 million was released to Precision. For additional information, see note 2 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

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 that the accounts receivable balance as of period end represents. When reviewing the performance of our business units, 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 58 days at January 31, 2008, compared to 56 days at January 31, 2007. DSO using the average method, which utilizes the accounts receivable balance and *earned* revenue in the calculation, was 99 days and 93 days at January 31, 2008 and 2007, respectively.

Cash Flows

The following is a summary of cash flows for fiscal 2008, 2007 and 2006:

Operating Activities

Cash provided by operating activities was \$15.9 million, \$18.9 million and \$28.6 million in fiscal 2008, 2007 and 2006, respectively. The decrease in operating cash flow from fiscal 2007 to 2008 primarily resulted from lower net income of \$1.9 million, an increase in accounts receivable of \$9.7 million due to higher billings and a decrease in accounts payable of \$2.6 million. These decreases in operating cash flow were partially offset by increases in operating cash flow resulting from an increase in deferred revenue of \$9.1 million due to higher maintenance billings in fiscal 2008 and depreciation and amortization expenses of \$1.2 million.

The decrease in operating cash flow from fiscal 2006 to 2007 primarily resulted from lower net income of \$13.3 million, which was partially offset by non-cash expenses for stock compensation of \$5.3 million. Accounts receivable increased \$4.5 million primarily related to increased billings. Other changes to net cash provided by operating activities included a decrease in cash flow from changes in other assets primarily related to deferred tax assets and an increase in our deferred revenue balance year over year. Fiscal 2006 cash flow from operations included a non-cash tax benefit of \$11.5 million related to the reversal of valuation allowances and contingency reserves.

In the first quarter of fiscal 2006, we moved our data center from Carpinteria, California, to our corporate headquarters in Santa Barbara, California. The move resulted in \$1.1 million in exit costs incurred during fiscal 2006. Throughout fiscal 2007, the fair market value of the estimated sublease income continued to decline and as a result we incurred additional charges of \$0.7 million. We secured a sublease agreement with a tenant in fiscal 2008.

Investing Activities

Cash used in investing activities for fiscal 2008 and 2007 was \$9.7 million and \$16.2 million, respectively. These amounts primarily related to costs associated with acquisitions and purchases of property and equipment. In fiscal 2006, investing activities provided \$1.8 million of cash, primarily due to sales of marketable securities.

During fiscal 2007, in order to expand our product offering, we acquired the rights to certain assets of Soft Cell and three businesses: Bisgen, Precision and FBOS. In fiscal 2007 we paid \$8.5 million in net cash related to these acquisitions and had an increase in restricted cash of \$2.6 million resulting from the acquisition of Precision. In fiscal 2008 we paid \$4.7 million in net cash related to these acquisitions and \$1.5 million of restricted cash was returned to us. For additional information regarding our acquisitions, see note 2 within the Notes to Consolidated Financial Statements included in Item 15 of this Annual Report on Form 10-K.

Purchases of property and equipment for fiscal 2008, 2007 and 2006 were \$5.2 million, \$4.6 million and \$7.2 million, respectively. Purchases of property and equipment in both fiscal 2008 and 2007 primarily relate to computer equipment and software. Fiscal 2006 included capital investments of \$2.1 million for the construction of and building improvements for our company headquarters on property owned by QAD in Santa Barbara, California.

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We spent \$1.4 million, \$1.5 million and \$4.1 million, in fiscal 2008, 2007 and 2006, respectively, related to capitalized software costs. Fiscal 2008 and 2007 capitalized software expenditures primarily related to internal costs incurred to integrate and localize purchased technology and internally developed products. Fiscal 2006 cash outflows primarily related to technology purchased from Soft Cell and related internal costs incurred to integrate and localize internally developed products.

Historically, we invested funds in short term marketable securities on which we earned interest income. In fiscal 2006 we sold \$13.0 million in marketable securities and deposited the proceeds into our cash account.

Financing Activities

Cash used in financing activities was \$18.4 million, \$7.3 million and \$24.3 million for fiscal 2008, 2007 and 2006, respectively. The fiscal 2008 activity included repurchases of 2.2 million shares of QAD common stock for \$18.7 million and dividend payments of \$3.2 million to holders of QAD common stock. Of the 2.2 million shares repurchased in fiscal 2008, one million shares were repurchased in a single privately negotiated transaction. Additionally, we repaid \$0.3 million of debt related to our mortgage. These cash payments were partially offset by \$2.9 million received from stock exercises and \$0.6 million from changes in cash overdraft.

The fiscal 2007 activity included outflows for the repurchase of 0.8 million shares of QAD common stock for \$6.0 million and \$3.2 million of dividend payments to owners of QAD common stock. Additionally, we made total cash payments of \$0.4 million to the minority shareholders of our Thailand subsidiary, which consisted of \$0.2 million in dividends and \$0.2 million in reduction of our minority interest liability. These cash payments were partially offset by \$1.7 million received from stock option exercises and \$1.0 million from changes in cash overdraft. We also repaid \$0.3 million of debt related to our mortgage.

The fiscal 2006 activity included the purchase of 2 million shares of QAD common stock from Recovery Equity Investors II, L.P. for \$7.40 per share for total cash consideration of \$14.8 million. During fiscal 2006, we repaid the outstanding balance of \$7.6 million on our Comerica Bank credit facility. In addition, we made \$0.2 million in principal payments related to other debt during the year. Proceeds from the issuance of stock were \$2.8 million, primarily related to the exercise of stock options. We implemented a dividend program during fiscal 2005 and paid \$3.3 million in dividends during fiscal 2006.

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

CONTRACTUAL OBLIGATIONS

The following summarizes our significant contractual obligations at January 31, 2008 and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods.

	Year Ended January 31,					Thereafter	Total
	2009	2010	2011	2012	2013		
	(In millions)						
Notes payable	\$ 0.2	\$ 0.3	\$ 0.3	\$ 0.3	\$ 0.3	\$ 15.8	\$ 17.2
Notes payable interest payments	1.1	1.1	1.1	1.1	1.1	1.5	7.0
Lease obligations	8.6	5.6	3.4	2.4	1.5	3.5	25.0
Obligations associated with acquisitions	5.3	—	—	—	—	—	5.3
Total	\$ 15.2	\$ 7.0	\$ 4.8	\$ 3.8	\$ 2.9	\$ 20.8	\$ 54.5

Credit Facility

Effective April 7, 2005, we entered into an unsecured loan agreement with Comerica Bank. The agreement provides a three-year commitment for a \$20 million line of credit (the Facility). The maximum amount that can be borrowed under the Facility is subject to a borrowing base calculation of 1.5 times the four-quarter trailing earnings before interest, taxes, depreciation and amortization (EBITDA), less the total amount of letters of credit and other similar obligations. At January 31, 2008, the maximum that could have been borrowed under the Facility was \$20 million. We pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by our ratio of funded debt to our 12-month trailing EBITDA.

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The Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, maintaining a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum cash balance in the United States of \$10 million. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio. At January 31, 2008, a prime rate borrowing would have had an effective rate of 5.75% and a 30-day LIBOR borrowing would have had an effective rate of approximately 3.89%.

As of January 31, 2008, there were no borrowings under the Facility and we were in compliance with the financial covenants of the Facility, as amended.

Effective April 10, 2008, we entered into an unsecured loan agreement with Bank of America, N.A. The agreement provides a three-year commitment for a \$20 million line of credit (the New Facility). We will pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million New Facility. The rate is determined by our ratio of funded debt to our 12-month trailing EBITDA.

The New Facility provides that we will maintain certain financial and operating covenants which include, among other provisions, a minimum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a maximum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the New Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on our funded debt to 12-month trailing EBITDA ratio.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is a non-recourse loan, which is secured by real property located in Santa Barbara, California. The terms of the loan provide that we will make 119 monthly payments consisting of principal and interest totaling \$115,000 and one final principal payment of \$15.4 million. The loan matures in July 2014. A portion of these proceeds were used to repay our then-existing construction loan with Santa Barbara Bank and Trust. The balance of the note payable at January 31, 2008 was \$17.2 million.

Lease Obligations

We lease certain office facilities, office equipment and automobiles under operating lease agreements. Future minimum rental payments under non-cancelable operating lease commitments with terms of more than one year are included in the above table of contractual obligations. For further discussion of our leased office facilities, see Item 2 entitled "Properties" included elsewhere in this Annual Report on Form 10-K.

Obligations Associated with Acquisitions

In connection with the acquisitions of Precision and Bisgen in fiscal 2007, part of the purchase price consideration for each of these companies included deferred payments. Consideration for Precision included total deferred payments of \$7.2 million. In September 2007, we made the first anniversary payment of \$3.7 million and the second anniversary payment of \$3.5 million is due to be paid in September 2008. Consideration for Bisgen included deferred payments of \$0.7 million. In fiscal 2008, we paid \$0.1 million and an additional \$0.6 million is due to be paid in fiscal 2009.

We made a final payment of \$1.2 million to buy out a minority interest shareholder in our Thailand subsidiary. The \$1.2 million payment was made in the first quarter of fiscal 2009.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Rates. In fiscal years 2008 and 2007 approximately 30% of our revenue was denominated in foreign currencies compared to 35% in fiscal 2006. We also incurred approximately 45% of our expenses in currencies other than the U.S. dollar in each of the last three fiscal years. As a result, fluctuations in the values of the respective currencies relative to the currencies in which we generate revenue could adversely affect us.

Fluctuations in currencies relative to the U.S. dollar have affected, and will continue to affect, period-to-period comparisons of our reported results of operations. In fiscal 2008, 2007 and 2006, foreign currency transaction and remeasurement (gains) losses totaled \$0.9 million, \$(1.7) million and \$(0.1) million, respectively, and are included in “Other (income) expense, net” in our Consolidated Statements of Income. Due to constantly changing currency exposures and the volatility of currency exchange rates, we may experience currency losses in the future, and we cannot predict the effect of exchange rate fluctuations upon future operating results. Although we do not currently undertake hedging transactions, we may choose to hedge a portion of our currency exposure in the future, as we deem appropriate.

Interest Rates. We invest our surplus cash in a variety of financial instruments, consisting principally of bank time deposits and short-term marketable securities with maturities of less than one year. Our investment securities are held for purposes other than trading. When invested, cash balances held by subsidiaries are invested in short-term time deposits with local operating banks. Additionally, our short-term and long-term debt bears interest at variable rates.

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2008 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 2008 fiscal year-end rates would not have a material adverse effect on the fair value of investments and would not materially impact our results of operations or financial condition for the next fiscal year.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is included in Item 15 of this Annual Report on Form 10-K.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

QAD maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by QAD in reports that it files or submits under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. QAD’s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of QAD’s disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, QAD’s principal executive officer and principal financial officer have concluded that QAD’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective at the reasonable assurance level.

(b) Management's Report on Internal Control Over Financial Reporting

QAD's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. QAD's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. QAD's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of QAD's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that QAD's receipts and expenditures are being made only in accordance with authorizations of QAD's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of QAD's assets that could have a material effect on the financial statements.

Management has assessed the effectiveness of QAD's internal control over financial reporting as of January 31, 2008 based on the criteria described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management's assessment, management has concluded that QAD's internal control over financial reporting was effective as of January 31, 2008.

Our independent registered public accounting firm, KPMG, LLP, has audited our internal control over financial reporting as of January 31, 2008, as stated in its report included in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

Our annual report on Form 10-K for the fiscal year ended January 31, 2007, disclosed a material weakness relating to accounting for income taxes. In order to remediate this material weakness, during fiscal 2008, we: (1) completed a reorganization and increased staffing in the Corporate Tax department, (2) implemented additional review procedures, (3) engaged external tax advisors to assist in the review of our SFAS 109 calculations and (4) increased coordination between members of the Corporate Tax Department and Corporate Controller's Office and other senior finance management. As a result of these actions, management has concluded that the Company has remediated the material weakness. Other than the changes described above, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

(d) Limitations on the Effectiveness of Controls

QAD's management does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within QAD have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of QAD Inc.:

We have audited QAD Inc.'s internal control over financial reporting as of January 31, 2008 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). QAD Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying report entitled *Management's Report on Internal Control Over Financial Reporting* included in Item 9A.(b). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, QAD Inc. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended January 31, 2008, and our report dated April 15, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
April 15, 2008

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

Certain information with respect to persons who are or may be deemed to be executive officers of the Registrant is set forth under the caption “Executive Officers of the Registrant” in Item 1 of Part I of this Annual Report on Form 10-K.

Information regarding QAD directors is set forth in the section entitled “Election of Directors” appearing in our Definitive Proxy Statement for the Annual Meeting of Stockholders (Proxy Statement) to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal year ended January 31, 2008, which information is incorporated herein by reference.

In addition, the other information required by Item 10 is incorporated by reference from the Proxy Statement.

ITEM 11. *EXECUTIVE COMPENSATION*

Information regarding executive compensation is set forth under the caption “Executive Compensation” in the Proxy Statement, which information is incorporated herein by reference.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

Information regarding security ownership of certain beneficial owners and management is set forth under the caption “Stock Ownership of Directors, Executive Officers and Certain Beneficial Owners” in the Proxy Statement, which information is incorporated herein by reference.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Information regarding certain relationships and related transactions is set forth under the caption “Certain Transactions” in the Proxy Statement, which information is incorporated herein by reference.

ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES*

Information regarding services performed by, and fees paid to, our independent auditors is set forth under the caption “Principal Accountant Fees and Services” in the Proxy Statement, which information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. FINANCIAL STATEMENTS

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

QAD INC.

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2. INDEX TO FINANCIAL STATEMENT SCHEDULES

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

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

3. INDEX TO EXHIBITS

See the Index of Exhibits at page 74.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended January 31, 2008. In connection with our audits of the consolidated financial statements, we also have audited the related financial statement Schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of QAD Inc. and subsidiaries as of January 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, effective February 1, 2007, the Company adopted the provisions of Financial Accounting Standard Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. Also, as discussed in Note 1 to the consolidated financial statements, effective February 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment*. In addition, during the year ended January 31, 2007, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), QAD Inc.'s internal control over financial reporting as of January 31, 2008, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 15, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
April 15, 2008

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

	January 31,	
	2008	2007
Assets		
Current assets:		
Cash and equivalents	\$ 45,613	\$ 54,192
Restricted cash	—	2,612
Accounts receivable, net of allowances of \$3,657 and \$3,803 at January 31, 2008 and 2007, respectively	83,027	68,806
Other current assets	22,742	16,352
Total current assets	<u>151,382</u>	<u>141,962</u>
Property and equipment, net	42,450	42,396
Capitalized software costs, net	8,783	9,631
Goodwill	22,591	18,834
Other assets, net	10,687	14,309
Total assets	<u>\$ 235,893</u>	<u>\$ 227,132</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 274	\$ 272
Accounts payable	12,249	11,662
Deferred revenue	89,349	77,075
Other current liabilities	40,664	38,191
Total current liabilities	<u>142,536</u>	<u>127,200</u>
Long-term debt	16,998	17,271
Other liabilities	3,764	5,417
Minority interest	—	672
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value. Authorized 5,000,000 shares; none issued or outstanding	—	—
Common stock, \$0.001 par value. Authorized 150,000,000 shares; issued 35,347,367 shares and 35,351,923 shares at January 31, 2008 and 2007, respectively	35	35
Additional paid-in capital	135,362	129,062
Treasury stock, at cost (4,596,476 shares and 3,061,400 shares at January 31, 2008 and 2007, respectively)	(36,336)	(22,870)
Accumulated deficit	(21,596)	(22,307)
Accumulated other comprehensive loss	(4,870)	(7,348)
Total stockholders' equity	<u>72,595</u>	<u>76,572</u>
Total liabilities and stockholders' equity	<u>\$ 235,893</u>	<u>\$ 227,132</u>

See accompanying notes to consolidated financial statements.

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

	Years Ended January 31,		
	2008	2007	2006
Revenue:			
License fees	\$ 61,491	\$ 54,425	\$ 57,926
Maintenance and other	128,183	122,740	117,139
Services	73,073	58,422	50,429
Total revenue	262,747	235,587	225,494
Costs and expenses:			
Cost of license fees	9,794	8,307	8,132
Cost of maintenance, service and other revenue	101,072	85,240	80,598
Sales and marketing	71,016	63,790	61,424
Research and development	41,069	40,053	32,659
General and administrative	33,459	29,695	26,798
Amortization of intangibles from acquisitions	749	365	258
Total costs and expenses	257,159	227,450	209,869
Operating income	5,588	8,137	15,625
Other (income) expense:			
Interest income	(2,243)	(2,533)	(1,452)
Interest expense	1,362	1,136	1,642
Other (income) expense, net	720	(1,874)	(537)
Total other income	(161)	(3,271)	(347)
Income before income taxes	5,749	11,408	15,972
Income tax expense (benefit)	333	4,132	(4,567)
Net income	\$ 5,416	\$ 7,276	\$ 20,539
Basic net income per share	\$ 0.17	\$ 0.22	\$ 0.63
Diluted net income per share	\$ 0.17	\$ 0.22	\$ 0.61

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in thousands)

	Common Stock and Additional Paid-in Capital		Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount				
Balance, January 31, 2005	35,339	\$119,128	(1,530)	\$ (9,668)	\$ (40,154)	\$ (5,269)	\$ 64,037	
Cumulative effect of prior period adjustments	—	270	—	—	(531)	—	(261)	
Adjusted balance at February 1, 2005	35,339	119,398	(1,530)	(9,668)	(40,685)	(5,269)	63,776	
Comprehensive income:								
Net income	—	—	—	—	20,539	—	20,539	\$ 20,539
Foreign currency translation adjustments	—	—	—	—	—	(984)	(984)	(984)
Total comprehensive income								<u>\$ 19,555</u>
Stock activity:								
Under employee stock purchase plan	—	—	87	453	128	—	581	
Under stock options	11	39	629	3,263	(1,039)	—	2,263	
Tax benefit from stock options	—	3,804	—	—	—	—	3,804	
Stock compensation expense	—	98	—	—	—	—	98	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,228)	—	(3,228)	
Unearned compensation-restricted stock	—	110	—	—	—	—	110	
Repurchase of common stock	—	—	(2,000)	(14,800)	—	—	(14,800)	
Balance, January 31, 2006	35,350	123,449	(2,814)	(20,752)	(24,285)	(6,253)	72,159	
Cumulative effect of adjustment resulting from the adoption of SAB No.108	—	—	—	—	420	—	420	
Adjusted balance at January 31, 2006	35,350	123,449	(2,814)	(20,752)	(23,865)	(6,253)	72,579	
Comprehensive income:								
Net income	—	—	—	—	7,276	—	7,276	\$ 7,276
Foreign currency translation adjustments	—	—	—	—	—	(1,095)	(1,095)	(1,095)
Total comprehensive income								<u>\$ 6,181</u>
Stock award exercises	2	6	559	4,022	(2,308)	—	1,720	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,245)	—	(3,245)	
Minority shareholder dividend	—	—	—	—	(165)	—	(165)	
Stock compensation expense	—	5,400	—	—	—	—	5,400	
Restricted stock	—	132	(12)	(132)	—	—	—	
Unearned compensation-restricted stock	—	110	—	—	—	—	110	
Repurchase of common stock	—	—	(794)	(6,008)	—	—	(6,008)	
Balance, January 31, 2007	35,352	129,097	(3,061)	(22,870)	(22,307)	(7,348)	76,572	
Cumulative effect of the adoption of FIN48	—	—	—	—	681	—	681	
Adjusted balance at February 1, 2007	35,352	129,097	(3,061)	(22,870)	(21,626)	(7,348)	77,253	
Comprehensive income:								
Net income	—	—	—	—	5,416	—	5,416	\$ 5,416

Foreign currency translation adjustments	—	—	—	—	—	2,478	2,478	<u>2,478</u>
Total comprehensive income								<u>\$ 7,894</u>
Stock award exercises	7	10	689	5,125	(2,225)	—	2,910	
Tax benefit from stock options	—	216	—	—	—	—	216	
Stock compensation expense	—	6,162	—	—	—	—	6,162	
Dividends declared (\$0.10 per share)	—	—	—	—	(3,161)	—	(3,161)	
Restricted stock	(12)	(132)	12	132	—	—	—	
Unearned compensation-restricted stock	—	44	—	—	—	—	44	
Repurchase of common stock	—	—	(2,236)	(18,723)	—	—	(18,723)	
Balance, January 31, 2008	<u>35,347</u>	<u>\$135,397</u>	<u>(4,596)</u>	<u>\$36,336</u>	<u>\$ (21,596)</u>	<u>\$ (4,870)</u>	<u>\$ 72,595</u>	

See accompanying notes to consolidated financial statements.

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

	Years Ended January 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 5,416	\$ 7,276	\$ 20,539
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,417	8,260	7,380
Provision for doubtful accounts and sales adjustments	690	629	364
(Gain) Loss on disposal of property and equipment	(73)	12	21
Tax benefit from reversal of deferred tax valuation allowances and reserves	—	—	(11,513)
Exit costs	59	739	1,075
Stock compensation expense	6,206	5,461	208
Excess tax benefits from stock options	(216)	—	—
Other, net	(485)	(62)	(165)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(13,881)	(4,173)	365
Other assets	(849)	(516)	7,170
Accounts payable	(1,558)	1,087	(1,313)
Deferred revenue	8,943	(120)	5,743
Other liabilities	2,206	283	(1,307)
Net cash provided by operating activities	15,875	18,876	28,567
Cash flows from investing activities:			
Purchase of property and equipment	(5,165)	(4,631)	(7,225)
Proceeds from sale of intangible assets	—	906	—
Proceeds from sale of marketable securities	—	—	13,000
Capitalized software costs	(1,428)	(1,510)	(4,051)
Restricted cash	1,575	(2,612)	—
Acquisitions of businesses, net of cash acquired	(4,749)	(8,516)	—
Proceeds from sale of property and equipment	104	204	48
Net cash (used in) provided by investing activities	(9,663)	(16,159)	1,772
Cash flows from financing activities:			
Repayments of other debt	(277)	(310)	(7,847)
Dividends paid	(3,188)	(3,249)	(3,261)
Proceeds from issuance of common stock	2,910	1,720	2,844
Excess tax benefits from stock options	216	—	—
Repurchase of common stock	(18,723)	(6,008)	(14,800)
Changes in cash overdraft	649	975	(1,266)
Minority shareholder payment	—	(389)	—
Net cash used in financing activities	(18,413)	(7,261)	(24,330)
Effect of exchange rates on cash and equivalents	3,622	(1,235)	(1,327)
Net (decrease) increase in cash and equivalents	(8,579)	(5,779)	4,682
Cash and equivalents at beginning of year	54,192	59,971	55,289
Cash and equivalents at end of year	<u>\$ 45,613</u>	<u>\$ 54,192</u>	<u>\$ 59,971</u>

See accompanying notes to consolidated financial statements.

QAD INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years Ended January 31,		
	2008	2007	2006
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	\$ 1,292	\$ 1,218	\$ 1,596
Income taxes, net of refunds	963	447	2,100
Supplemental disclosure of non-cash activities:			
Realization of acquired deferred tax asset	—	—	124
Tax benefits related to employee stock options recorded to equity	—	—	3,804
Obligations associated with technology purchases	—	—	459
Obligations associated with dividend declaration	781	808	811
Obligations associated with acquisitions	1,210	8,632	—

See accompanying notes to consolidated financial statements.

QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

QAD Inc., a Delaware corporation (the Company), was founded in 1979 and is a provider of enterprise software applications, professional services and application support for multinational, large and mid-range manufacturing companies. QAD Enterprise Applications, which is the Company's core product suite, addresses the needs of manufacturers in six principal industry segments: automotive, consumer products, high technology, food and beverage, industrial products and life sciences. The focus of QAD Enterprise Applications is addressing the needs of global manufacturers, enabling them to implement software applications to run their businesses anywhere in the world and meet local requirements while maintaining control of their business as a whole.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of QAD Inc. and all of its subsidiaries. All subsidiaries are wholly-owned and all significant balances and transactions among the consolidated entities have been eliminated from the financial statements.

USE OF ESTIMATES

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, accordingly, include amounts based on informed estimates and judgments of management, with consideration given to materiality, that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Company considers certain accounting policies related to revenue recognition, accounts receivable allowances, impairment of goodwill and intangible assets, capitalized software costs, valuation of deferred tax assets and tax contingency reserves and accounting for stock-based compensation to be critical policies due to the significance of these items to its operating results and the estimation processes and management judgment involved in each.

PRIOR PERIOD REVISIONS

In accordance with Staff Accounting Bulletin No. 108, GAAP results for prior periods have been revised from previously reported amounts. The impact of the revisions resulted in reductions to net income of \$0.4 million and \$0.2 million in fiscal 2007 and 2006, respectively, and a reduction to diluted EPS of \$0.01 for both the fiscal years 2007 and 2006. The cumulative impact of the revisions related to fiscal years 2001-2005 resulted in a \$0.5 million adjustment to February 1, 2005 accumulated deficit. The revision relates to four adjustments which are described below. The Company considers these adjustments to be immaterial to prior periods individually and in the aggregate.

Stock Compensation to Non-Employees

During fiscal 2008, the Company identified options outstanding to former employees whose status changed to that of non-employees related to grants dating back to fiscal 2001. As a result, the Company completed a full review of all options outstanding and concluded stock compensation expense of \$0.3 million should have been recorded between fiscal years 2001 and 2007. The adjustment to the financial statements includes a \$0.2 million adjustment to February 1, 2005 accumulated deficit, \$0.1 million of additional stock compensation expense in fiscal 2006 and a stock compensation benefit of \$0.1 million in fiscal 2007.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Asset Retirement Obligations

During fiscal 2008, the Company identified certain leases on foreign office space included terms requiring the Company to return the underlying office space to a specified condition at the end of the lease term. These lease terms require the Company to record an asset retirement obligation in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 "Accounting for Asset Retirement Obligations" (SFAS 143). As a result of this finding, the Company completed a comprehensive review of all its lease agreements worldwide to determine the extent of any obligation. The prior period errors occurred between fiscal years 2004 (the adoption date of SFAS 143) and 2007. The adjustment to the financial statements includes a \$0.3 million adjustment to February 1, 2005 accumulated deficit, and \$0.1 million of depreciation and interest expense in each of the fiscal years 2007 and 2006.

Research and Development Tax Credit

The Company historically had not considered stock compensation expense in its cost sharing arrangement between its United States and Irish subsidiaries. The adjustment to the financial statements includes a \$0.1 million adjustment to February 1, 2005 accumulated deficit and \$0.1 million of tax expense and estimated penalties in each of the fiscal years 2007 and 2006.

Income Taxes Payable

As part of a reconciliation exercise on the January 31, 2007 income taxes payable balance, the Company concluded an adjustment of \$0.2 million was necessary. The adjustment to the financial statements includes \$0.2 million of additional tax expense in fiscal year 2007.

CASH AND EQUIVALENTS

Cash and equivalents consist of cash and short-term investments with remaining maturities of less than 90 days at the date of purchase. The Company considers all highly liquid investments purchased with an original maturity of 90 days or less to be cash equivalents. At January 31, 2008 and 2007, the Company's cash equivalents consist of Registered Money Market Funds and the Company has no investments in securities with an underlying exposure to sub-prime mortgages. Additionally, the Company has no holdings in auction rate notes or similar securities.

Restricted Cash

In fiscal 2008 and 2007, restricted cash was held in escrow related to the acquisition of Precision Software Limited. The restrictions were released in fiscal 2008. See note 2 "Business Combinations" within these Notes to Consolidated Financial Statements.

REVENUE RECOGNITION

The Company applies the provisions of Statement of Position (SOP) 97-2, "Software Revenue Recognition," as amended by SOP 98-9, "Modification of SOP 97-2, Software Revenue Recognition, With respect to Certain Transactions," to all software product revenue transactions. The Company recognizes revenue when all of the following conditions are satisfied: (1) there is persuasive evidence of an arrangement; (2) the service or product has been delivered to the customer and no uncertainties exist surrounding product acceptance; (3) the collection of our fees is probable; and (4) the amount of fees to be paid by the customer is fixed or determinable. Revenue is presented net of sales, use, and value-add taxes collected on behalf of its customers.

The Company's typical payment terms vary by region. Occasionally, payment terms of up to one year may be granted for software license fees to customers with an established history of collections without concessions.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

License Revenue. Provided all other revenue recognition criteria have been met, the Company recognizes license revenue on delivery using the residual method. When a license agreement includes one or more elements to be delivered at a future date, revenue is recognized in one of two ways. If vendor-specific objective evidence (VSOE) of the fair value of all undelivered elements exists, the revenue for the undelivered elements is deferred. If VSOE for the fair value of the undelivered elements does not exist, revenue is deferred and recognized when VSOE of fair value for the undelivered elements has been established or when delivery of all elements occurs. VSOE of the fair value is determined based on historical evidence of stand-alone sales of these elements to customers.

Revenue from the Company's subscription product offerings including On Demand product offerings, is recognized ratably over the contract period when the customer does not have the right to take possession of the software. For subscription arrangements where the customer has the right and ability to take possession of the software, revenue is recognized in accordance with SOP 97-2 using the residual method.

The Company's standard products do not require significant production, modification or customization of software or services that are essential to the functionality of the software. Certain judgments affect the application of the license revenue recognition policy, such as the assessment of collectibility, for which the Company reviews a customer's credit worthiness and the historical experience with that customer, as applicable.

Maintenance Revenue. Revenue from ongoing customer support and product updates is recognized ratably over the term of the maintenance period, which in most instances is one year. Software license updates provide customers with rights to unspecified software product upgrades, maintenance releases and patches released during the term of the support period on a when-and-if available basis. Product support includes Internet access to technical content, as well as Internet and telephone access to technical support personnel.

Services Revenue. Revenue from technical and implementation services is recognized as services are performed for time-and-materials contracts.

At times, the Company's license and support arrangements include consulting implementation services sold separately under consulting engagement contracts. Consulting revenues from these arrangements are generally accounted for separately from software license revenues, because the arrangements qualify as service transactions as defined in SOP No. 97-2 and the Company has VSOE of fair value for the services. When the services are determined to not have been sold separately from license and support arrangements, the Company allocates revenue to services based on the VSOE determined value of the services. Revenues for consulting services are generally recognized as the services are performed based on time and materials incurred during each reporting period. If there is significant uncertainty about the project completion or receipt of payment for the consulting services, revenue is deferred until the uncertainty is resolved.

The Company does, on occasion, enter into fixed-price services. The Company estimates the proportional performance on contracts with fixed or "not to exceed" fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project.

When an arrangement does not qualify for separate accounting of the software license and consulting transactions, the software license revenue is, recognized together with the consulting services based on contract accounting using either the percentage-of-completion or completed-contract method.

ACCOUNTS RECEIVABLE ALLOWANCES

The Company reviews the collectibility of its accounts receivable each period by analyzing balances based on age and records specific allowances for any balances that it determines may not be fully collectible due to inability of the customers to pay. The Company also provides an additional reserve based on historical data including analysis of write-offs and other known factors. The allowance for sales adjustments primarily relates to reserves required to adjust revenue to the amount that will actually be realized. Provisions to the allowance for doubtful accounts are included in bad debt expense in general and administrative expense and provisions for sales adjustments are recorded against revenue.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAXES

The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities and expected benefits of utilizing net operating loss and credit carryforwards. In assessing whether there is a need for a valuation allowance on deferred tax assets, the Company determines whether it is more likely than not that it will realize tax benefits associated with deferred tax assets. In making this determination, the Company considers future taxable income and tax planning strategies that are both prudent and feasible. The impact on deferred taxes of changes in tax rates and laws, if any, are reflected in the financial statements in the period of enactment. No provision is made for taxes on unremitted earnings of foreign subsidiaries, because they are considered to be reinvested indefinitely in such operations. Due to the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Tax — an Interpretation of Financial Accounting Standards Board Statement No. 109" (FIN 48), deferred tax assets are not recorded to the extent they are attributed to uncertain tax positions. For deferred tax assets that cannot be recognized under the more-likely-than-not-standard, the Company has established a valuation allowance.

COMPUTATION OF NET INCOME PER SHARE

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

	Years Ended January 31,		
	2008	2007	2006
	(in thousands, except per share data)		
Net income	\$ 5,416	\$ 7,276	\$ 20,539
Weighted average shares of common stock outstanding— <i>basic</i>	31,617	32,425	32,707
Weighted average shares of common stock equivalents issued using the treasury stock method	738	688	863
Weighted average shares of common stock and common stock equivalents outstanding— <i>diluted</i>	32,355	33,113	33,570
Basic net income per share	\$ 0.17	\$ 0.22	\$ 0.63
Diluted net income per share	\$ 0.17	\$ 0.22	\$ 0.61

Common stock equivalent shares consist of the shares issuable upon the exercise of stock options and stock appreciation rights (SARs) and vesting of restricted stock using the treasury stock method. Shares of common stock equivalents of approximately 3.4 million, 4.0 million and 1.9 million for fiscal 2008, 2007 and 2006, respectively, were not included in the diluted calculation because they were anti-dilutive.

FOREIGN CURRENCY TRANSLATION

The financial position and results of operations of the Company's foreign subsidiaries are generally determined using the country's local currency as the functional currency. Assets and liabilities recorded in foreign currencies are translated at the exchange rates on the balance sheet date. Revenue and expenses are translated at average rates of exchange prevailing during the year. Translation adjustments resulting from this process are charged or credited to other comprehensive income (loss), which is included in "Accumulated other comprehensive loss" within the Consolidated Balance Sheets.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Gains and losses resulting from foreign currency transactions and remeasurement adjustments of monetary assets and liabilities not held in an entity's functional currency are included in earnings. Foreign currency transaction and remeasurement (gains) losses for fiscal 2008, 2007 and 2006 totaled \$0.9 million, \$(1.7) million and \$(0.1) million, respectively, and are included in "Other (income) expense, net" in the accompanying Consolidated Statements of Income.

FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

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. The Company's note payable bears a fixed rate of 6.5%. The estimated fair value of the note payable was approximately \$18.2 million at January 31, 2008 and the carrying value was \$17.2 million. The estimated fair value of the note payable is based primarily on expected market prices for bank loans with similar terms and maturities.

Concentration of credit risk with respect to trade receivables is limited due to the large number of customers comprising our customer base, and their dispersion across many different industries and locations throughout the world. No single customer accounted for 10% or more of the Company's total revenue in any of the last three fiscal years. In addition, no single customer accounted for 10% or more of accounts receivable at January 31, 2008 or January 31, 2007.

LONG-LIVED ASSETS

Property and equipment are stated at cost. Additions and significant improvements to property and equipment are capitalized, while maintenance and repairs are expensed. For financial reporting purposes, depreciation is generally provided on the straight-line method over the useful life of three years for computer equipment and software, five years for furniture and office equipment, 10 years for building improvements, and 39 years for buildings. Leasehold improvements are depreciated over the shorter of the lease term or the useful life of five years.

In accordance with SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" certain costs associated with software developed for internal use, including direct costs of materials, services and payroll costs for employees for time devoted to the software projects, are capitalized once the project has reached the application development stage. These costs are amortized using the straight-line method over the expected useful life of the software, beginning when the asset is substantially ready for use. Costs incurred during the preliminary project stage, maintenance and training costs and research and development costs are expensed as incurred.

Purchased intangible assets with finite lives, which include customer relationships, trade name and a covenant not to compete, are amortized on a straight-line basis over the estimated economic lives of the assets, which is up to five years. The Company evaluates the recoverability of its long-lived assets, including property and equipment and intangible assets with finite lives, in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company periodically reviews applicable assets for triggering events and, if necessary, for impairment in value based upon undiscounted future operating cash flows from those assets. If it is determined that the carrying amount of an asset may not be recovered, appropriate losses are recognized.

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. As required under SFAS 142, "Goodwill and Other Intangible Assets", goodwill is not amortized but is assessed on at least an annual basis for impairment at the reporting unit level by applying a fair value-based test. For further discussion related to SFAS 142, see note 4 within these Notes to Consolidated Financial Statements.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

CAPITALIZED SOFTWARE COSTS

The Company capitalizes software purchased from third parties or through business combinations as acquired software technology, if the related software under development has reached technological feasibility. In addition, the Company capitalizes software development costs incurred in connection with the localization and translation of its products once technological feasibility has been achieved based on a working model. A working model is defined as an operative version of the computer software product that is completed in the same software language as the product to be ultimately marketed, performs all the major functions planned for the product and is ready for initial customer testing (usually identified as beta testing).

The amortization of capitalized software costs is the greater of the straight-line basis over three years, the expected useful life, or computed using a ratio of current revenue for a product compared to the estimated total of current and future revenues for that product. The Company periodically compares the unamortized capitalized software costs to the estimated net realizable value of the associated product. The amount by which the unamortized capitalized software costs of a particular software product exceed the estimated net realizable value of that asset would be reported as a charge to the Consolidated Statement of Income.

RESEARCH AND DEVELOPMENT

All costs incurred to establish the technological feasibility of the Company's computer software products are expensed to research and development as incurred.

COMPREHENSIVE INCOME

Comprehensive income includes changes in the balances of items that are reported directly as a separate component of Stockholders' Equity on the Consolidated Balance Sheets. The components of comprehensive income are net income and foreign currency translation adjustments. The Company does not provide for income taxes on foreign currency translation adjustments since it does not provide for taxes on the unremitted earnings of its foreign subsidiaries. The changes in "Accumulated other comprehensive loss" are included in the Company's Consolidated Statement of Stockholders' Equity and Comprehensive Income.

STOCK—BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with SFAS 123 (revised 2004), "Share-Based Payment" (SFAS 123R). Under the fair value recognition provisions of SFAS 123R, share-based compensation cost is measured at the grant date based on the value of the award and is expensed ratably over the vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating volatility, the expected life of the award and estimating the percentage of awards that will be forfeited and other inputs. If actual forfeitures differ significantly from the estimates, stock-based compensation expense and the Company's results of operations could be materially impacted.

Equity instruments issued to non-employees in exchange for services are recorded in accordance with the provisions of EITF 96-18. Under this guidance, the fair value of the equity instruments is re-measured each period until the instruments vest. The incremental change is recorded as an expense in the period in which the change occurred.

Upon the exercise of stock options or SARs or upon the vesting of restricted stock, the Company will issue treasury stock. If treasury stock is not available, the Company will issue new shares of common stock.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

QUANTIFICATION OF ERRORS

In September 2006, the Securities and Exchange Commission released Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). The transition provisions permitted the Company to adjust for the cumulative effect on retained earnings of immaterial errors relating to prior years. The Company adopted SAB 108 during the fourth quarter of fiscal 2007. In accordance with SAB 108, the Company adjusted its beginning accumulated deficit for fiscal 2007 in the accompanying consolidated financial statements for the error described below.

The Company adjusted its beginning accumulated deficit for fiscal 2007 related to a correction of an error which was the result of an incorrect establishment of a valuation allowance in fourth quarter of fiscal 2006. This resulted in an overstatement of tax expense during fiscal 2006.

RECENT ACCOUNTING STANDARDS

Fair Value Measurements

The FASB has released two statements which address fair value accounting. SFAS 157, "Fair Value Measurements" (SFAS 157), defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an Amendment of FASB Statement No. 115" (SFAS 159), allows an entity to elect to measure many financial instruments and certain other items at fair value. Both statements are effective for fiscal 2009. The FASB has deferred the effective date of SFAS 157 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not measured at fair value on a recurring basis to fiscal years beginning after December 15, 2008. The Company does not expect the adoption of these statements to have a material effect on its consolidated financial statements.

Business Combinations

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combinations" (SFAS 141R). The objective of the Statement is to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS 141R requires that all business combinations be accounted for by applying the acquisition method (previously referred to as the purchase method), and most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in business combinations to be recorded at "full fair value." SFAS 141R also broadens the definition of a business and changes the treatment of direct acquisition-related costs from being included in the purchase price to instead being generally expensed if they are not costs associated with issuing debt or equity securities. SFAS 141R is effective for the Company beginning February 1, 2009, and will be applied prospectively to any new business combination.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Minority Interests

In December 2007, the FASB issued SFAS 160, "Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, amendment of ARB 51" (SFAS 160). The objective of the Statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 specifies that noncontrolling interests (previously referred to as minority interests) be reported as a separate component of equity, not as a liability or other item outside of equity, which changes the accounting for transactions with noncontrolling interest holders. SFAS 160 is effective for the Company beginning February 1, 2009, and will be applied prospectively to all noncontrolling interests, including any that arose before that date.

2. BUSINESS COMBINATIONS

The results of operations of the following acquired businesses are included in the Consolidated Financial Statements from the respective dates of acquisition. The Company completed all business combinations discussed below with the purpose of expanding its product offerings.

FBO Systems, Inc.

On November 3, 2006, the Company acquired Atlanta, Georgia-based FBO Systems, Inc. (FBOS), a developer and seller of enterprise asset management software. The Company purchased all of the capital stock of FBOS including certain tangible assets and intangible assets comprised of a trade name, customer relationships and all intellectual property rights to FBOS's enterprise asset management software. The purchase price included \$2.0 million paid in cash at closing, a deferred payment of \$0.8 million paid February 2007 and contingent performance payments over the next three years based on revenue growth, which will be recorded when the consideration is issuable.

The purchase price of \$2.8 million was allocated to net tangible assets acquired of \$0.5 million, amortizable intangible assets comprised of intellectual property, trade name, and customer relationships, totaling \$1.1 million, deferred tax liability of \$0.4 million and goodwill of \$1.6 million.

Precision Software Limited

On September 20, 2006, the Company acquired Dublin, Ireland-based Precision Software Limited (Precision), a provider of transportation management software solutions. Precision has main offices in Ireland and the United States with approximately 100 employees, and operates as a division of the Company.

The Company acquired all of the capital stock of Precision. The Precision acquisition included certain tangible assets and all intangible assets, including a trade name, customer relationships and all intellectual property rights to Precision's software solutions. At closing, the Company paid \$8.1 million in cash, of which \$2.6 million was held in escrow contingent upon the completion of an audit of the acquired opening balance sheet. In January 2008, the audit was completed and \$1.1 million was released to the selling shareholders from escrow. The remaining escrow balance of \$1.5 million was returned to the Company. In addition to the initial consideration at closing, the Company was obligated to make two additional payments upon each anniversary. The first anniversary payment of \$3.7 million was made in September 2007. A second and final payment of \$3.5 million is due to be paid in September 2008.

The purchase price, which includes \$0.5 million of acquisition costs, was allocated to net tangible assets acquired of \$4.2 million, deferred tax liability of \$0.6 million, amortizable intangible assets comprised of intellectual property, trade name and customer relationships, totaling \$4.9 million and goodwill of \$5.8 million.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. BUSINESS COMBINATIONS (Continued)

Bisgen Ltd.

In June 2006, the Company acquired UK-based Bisgen Ltd. (Bisgen). Bisgen develops and sells Customer Relationship Management (CRM) software marketed under the eBisgen name. The Company acquired all the capital stock of Bisgen, including all intellectual property rights to Bisgen's CRM software, for approximately \$1.1 million. Included in the purchase price is contingent consideration whereby the Company will pay an earn-out to Bisgen based on future license sales related to CRM, of which a minimum of \$0.2 million is guaranteed.

The purchase price of \$1.1 million was allocated to goodwill, intellectual property, a restrictive covenant, customer relationships, deferred tax liability and assumed net liabilities.

Soft Cell N.V.

In March 2006, the Company acquired the rights to certain assets of Belgium-based Soft Cell N.V. (Soft Cell), including sole ownership of all intellectual property rights owned by Soft Cell that were subject to co-ownership by the Company, as well as ownership of intellectual property rights to certain other related technology, for total consideration of \$1.4 million. The transaction excluded all debt, outstanding customer claims and other liabilities.

In fiscal 2006, prior to the acquisition, the Company had purchased co-ownership rights from Soft Cell to certain technology. This purchased technology was technologically feasible at the original purchase date and there were no significant issues related to integration with the Company's software. The total purchase price for all modules was approximately \$3.9 million and payment was due in phases from February 2005 through May 2006. As of March 2006, the Company owed Soft Cell \$0.5 million related to the purchased technology. As part of the acquisition, this amount was forgiven and, as such, the Company lowered the amount previously recorded in capitalized software from \$3.9 million to \$3.4 million.

The acquired intellectual property comprised two versions of Soft Cell financial software, version 3 and version 5, of which version 5 is complementary to the QAD applications. Version 5 has been capitalized as intellectual property and is amortized over three years, beginning in the period the product was sold to customers, which occurred in the third quarter of fiscal 2008.

The Company sold certain acquired assets from Soft Cell to third-parties, including a license to version 3 of the software, customer contracts, the "Soft Cell" trade name and certain fixed assets, for total consideration of \$1.1 million. The remaining purchase price was allocated to intellectual property and goodwill.

The acquisitions discussed above were not deemed material, either individually or in the aggregate, thus, pro forma supplemental information has not been provided.

3. CAPITALIZED SOFTWARE COSTS

Capitalized software costs and accumulated amortization at January 31, 2008 and 2007 were as follows:

	January 31,	
	2008	2007
	(in thousands)	
Capitalized software costs:		
Acquired software technology	\$ 8,884	\$ 9,996
Capitalized software development costs	3,103	2,639
	11,987	12,635
Accumulated amortization	(3,204)	(3,004)
Capitalized software costs, net	<u>\$ 8,783</u>	<u>\$ 9,631</u>

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. CAPITALIZED SOFTWARE COSTS (Continued)

The acquired software technology costs primarily relate to technology purchased from Precision and Soft Cell. In addition to the acquired software technology, the Company has capitalized internally developed software costs related to the Soft Cell technology and costs related to translations and localizations of QAD Enterprise Applications.

Amortization of capitalized software costs for fiscal 2008, 2007 and 2006 of \$2.7 million, \$1.7 million and \$1.6 million, respectively, is included in "Cost of license fees" in the accompanying Consolidated Statements of Income. The estimated remaining amortization expenses related to capitalized software costs for the years ended January 31, 2009, 2010 and 2011 are \$3.9 million, \$3.4 million and \$1.5 million, respectively.

It is the Company's policy to write-off capitalized software development costs once fully amortized. Accordingly, the corresponding \$2.7 million of costs and accumulated amortization was also removed from the balance sheet. These write-offs do not impact "Capitalized software costs, net."

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill

For the applicable reporting units, the changes in the carrying amount of goodwill were as follows (reporting units are defined in note 10 "Business Segment Information" within these Notes to Consolidated Financial Statements):

	<u>North America</u>	<u>EMEA</u>	<u>Asia Pacific</u> (in thousands)	<u>Latin America</u>	<u>Total</u>
Balances, January 31, 2006	\$ —	\$ 9,511	\$ 282	\$ 847	\$ 10,640
Fiscal 2007 activity:					
Acquisitions	3,563	3,563	—	—	7,126
Impact of foreign currency translation	—	1,077	34	(43)	1,068
Balances, January 31, 2007	3,563	14,151	316	804	18,834
Fiscal 2008 activity:					
Additions	570	570	665	—	1,805
Impact of foreign currency translation	—	1,929	10	13	1,952
Balances, January 31, 2008	<u>\$ 4,133</u>	<u>\$ 16,650</u>	<u>\$ 991</u>	<u>\$ 817</u>	<u>\$ 22,591</u>

The additions to goodwill in fiscal 2008 were due to \$1.1 million in goodwill recorded in connection with the Precision acquisition. In January 2008, the audit of the acquired balance sheet was completed and \$1.1 million was released to the selling shareholders from escrow. In addition, the Thailand minority shareholders exercised their put option in April, 2007 to sell their shares, representing 25% ownership in the Thailand subsidiary, at fair value to the Company. As of January 31, 2008, the execution of the put was not finalized, but the Company has accrued the fair value of the liability for the put option with a corresponding adjustment to goodwill of \$0.7 million. The payment to the Thailand minority shareholders was made in the first quarter of fiscal 2009.

The increase in goodwill during fiscal 2007 was primarily due to \$7.1 million in goodwill recorded in connection with the Soft Cell, Bisgen, Precision and FBOS acquisitions due to the excess of purchase price over estimated fair value of acquired net assets. These acquisitions were made in order to increase the Company's product offerings and thus the additional goodwill was allocated evenly among the North America and EMEA business segments, where the Company's product fulfillment centers are located. For further explanation of acquisition-related transactions, see note 2 "Business Combinations" within these Notes to Consolidated Financial Statements.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. GOODWILL AND INTANGIBLE ASSETS (Continued)

The Company is required to analyze goodwill for impairment on at least an annual basis. Impairment is determined by estimating the fair value of the Company's reporting units and comparing that value to the net carrying value (or book value). The Company has chosen the fourth quarter of its fiscal year as its annual test period. The Company performed its annual impairment test of goodwill in the fourth quarter of fiscal years 2008, 2007 and 2006, respectively, and determined that goodwill was not impaired.

Intangible Assets

	January 31, 2008	January 31, 2007
	(in thousands)	
Amortizable intangible assets		
Customer relationships	\$ 1,528	\$ 1,430
Trade name	565	499
Covenant not to compete	185	203
Other	—	34
	<u>2,278</u>	<u>2,166</u>
Less: accumulated amortization	(1,130)	(382)
Net amortizable intangible assets	<u>\$ 1,148</u>	<u>\$ 1,784</u>

The Company's intangible assets as of January 31, 2008 and January 31, 2007 are primarily related to the Bisgen, Precision and FBOS acquisitions completed in fiscal 2007. Intangible assets are included in "Other assets, net" in the accompanying Consolidated Balance Sheets. The increase in amortizable intangible assets from January 31, 2007 to January 31, 2008 was due to the impact of foreign currency translation.

As of January 31, 2008 and January 31, 2007, excluding goodwill, all of the Company's intangible assets were determined to have definite useful lives, and therefore were subject to amortization. The aggregate amortization expense related to amortizable intangible assets was \$0.8 million, \$0.4 million and \$0.3 million for fiscal years 2008, 2007 and 2006, respectively.

The estimated remaining amortization expenses related to amortizable intangible assets for the years ended January 31, 2009 and 2010 are \$0.7 million and \$0.4 million, respectively.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	January 31,	
	2008	2007
	(in thousands)	
Accounts receivable, net		
Accounts receivable	\$ 86,684	\$ 72,609
Less allowance for:		
Doubtful accounts	(1,288)	(1,252)
Sales adjustments	(2,369)	(2,551)
	<u>\$ 83,027</u>	<u>\$ 68,806</u>
Other current assets		
Deferred cost of revenues	\$ 7,406	\$ 6,734
Prepaid expenses	4,693	4,709
Deferred income taxes, net	7,262	2,941
Other	3,381	1,968
	<u>\$ 22,742</u>	<u>\$ 16,352</u>
Property and equipment, net		
Buildings and building improvements	\$ 32,448	\$ 31,920
Computer equipment and software	28,068	27,572
Furniture and office equipment	15,644	16,167
Leasehold improvements	5,894	5,671
Land	3,850	3,850
Automobiles (including under capital lease)	552	649
	86,456	85,829
Less accumulated depreciation and amortization	(44,006)	(43,433)
	<u>\$ 42,450</u>	<u>\$ 42,396</u>
Other assets, net		
Deferred income taxes, net	\$ 7,681	\$ 10,500
Other	3,006	3,809
	<u>\$ 10,687</u>	<u>\$ 14,309</u>
Deferred revenue		
Deferred maintenance revenue	\$ 81,417	\$ 73,032
Other deferred revenue	7,932	4,043
	<u>\$ 89,349</u>	<u>\$ 77,075</u>
Other current liabilities		
Accrued commissions and bonus	\$ 11,231	\$ 8,032
Accrued compensated absences	8,146	7,037
Accrued royalties	4,675	3,537
Other accrued payroll	2,503	2,428
Short term deferred payments related to acquisitions	3,503	5,037
Other current liabilities	10,606	12,120
	<u>\$ 40,664</u>	<u>\$ 38,191</u>

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DEBT

	January 31,	
	2008	2007
	(in thousands)	
Total debt		
Notes payable	\$ 17,245	\$ 17,479
Capital lease obligations	27	64
	17,272	17,543
Less current maturities	274	272
Long-term debt	<u>\$ 16,998</u>	<u>\$ 17,271</u>

The aggregate maturities of long-term debt, for each of the next five fiscal years and thereafter are as follows: \$0.2 million in fiscal 2009; \$0.3 million in fiscal 2010; \$0.3 million in fiscal 2011; \$0.3 million in fiscal 2012; \$0.3 million in fiscal 2013; and \$15.8 million thereafter.

Notes Payable

In July 2004, the Company entered into a loan agreement with Mid-State Bank & Trust. The loan had an original principal amount of \$18.0 million and bears interest at a fixed rate of 6.5%. This loan is secured by real property located in Santa Barbara, California. The terms of the loan provide for the Company to make 119 monthly payments consisting of principal and interest totaling \$115,000 and one final principal payment of \$15.4 million. The loan matures in July 2014.

Credit Facility

Effective April 7, 2005, the Company entered into an unsecured loan agreement with Comerica Bank. The agreement provides a three-year commitment for a \$20 million line of credit (Facility). The maximum amount that can be borrowed under the Facility is subject to a borrowing base calculation of 1.5 times the four-quarter trailing earnings before interest, tax, depreciation and amortization (EBITDA), less the total amount of letters of credit and other similar obligations. At January 31, 2008, the maximum that could have been borrowed under the facility was \$20 million. The agreement includes an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million Facility. The rate is determined by the ratio of funded debt to the Company's 12-month trailing EBITDA.

The Facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, maintaining a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a minimum cash balance in the United States of \$10 million. Borrowings under the Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on the Company's funded debt to 12-month trailing EBITDA ratio. At January 31, 2008, a prime rate borrowing would have had an effective rate of 5.75% and a 30-day LIBOR borrowing would have had an effective rate of approximately 3.89%.

As of January 31, 2008 there were no borrowings under the Facility and the Company was in compliance with the financial covenants, as amended.

Effective April 10, 2008, the Company entered into an unsecured loan agreement with Bank of America, N.A. The agreement provides a three-year commitment for a \$20 million line of credit (the New Facility). The Company will pay an annual commitment fee of between 0.25% and 0.50% calculated on the average unused portion of the \$20 million New Facility. The rate is determined by the ratio of funded debt to the 12-month trailing EBITDA.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. DEBT (Continued)

The New Facility provides that the Company will maintain certain financial and operating covenants which include, among other provisions, a minimum total leverage ratio of 1.5 to 1.0, a minimum liquidity ratio of 1.3 to 1.0, a minimum 12-month trailing EBITDA of \$10 million and a maximum fixed charge coverage ratio of 2.00 to 1.00. Borrowings under the New Facility bear interest at a floating rate based on LIBOR or prime plus the corresponding applicable margins, ranging from 0.75% to 1.75% for the LIBOR option or -0.25% to 0.25% for the prime option, depending on the Company's funded debt to 12-month trailing EBITDA ratio.

7. INCOME TAXES

Income tax expense (benefit) is summarized as follows:

	Years Ended January 31,		
	2008	2007	2006
	(in thousands)		
Current:			
Federal	\$ 173	\$ 113	\$ (572)
State	397	199	88
Foreign	2,277	2,898	991
Subtotal	2,847	3,210	507
Deferred:			
Federal	(1,059)	1,195	(1,465)
State	(1,229)	(302)	(4,167)
Foreign	(442)	29	(3,246)
Subtotal	(2,730)	922	(8,878)
Equity	216	—	3,804
Total	<u>\$ 333</u>	<u>\$ 4,132</u>	<u>\$ (4,567)</u>

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

	Years Ended January 31,		
	2008	2007	2006
	(in thousands)		
Computed expected tax expense	\$ 1,955	\$ 3,889	\$ 5,490
Benefit of state income taxes, net of federal income tax expense	(670)	111	1,548
Incremental tax benefit from foreign operations	(1,683)	(1,276)	(2,125)
Foreign withholding taxes	1,014	729	1,013
Net change in valuation allowance	(155)	293	(10,537)
Net change in contingency reserve	(64)	94	(989)
Non-deductible expenses	422	366	450
Benefit of federal tax credits	(438)	—	—
Other	(48)	(74)	583
	<u>\$ 333</u>	<u>\$ 4,132</u>	<u>\$ (4,567)</u>

Consolidated U.S. (loss) income before income taxes was \$(0.8) million, \$2.3 million and \$8.4 million for the fiscal years ended January 31, 2008, 2007 and 2006, respectively. The corresponding income before income taxes for foreign operations was \$6.5 million, \$9.1 million, and \$7.6 million for the fiscal years ended January 31, 2008, 2007 and 2006, respectively.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INCOME TAXES (Continued)

Withholding and U.S. income taxes have not been provided on approximately \$40 million of unremitted earnings of certain non-U.S. subsidiaries because such earnings are or will be reinvested in operations or will be offset by appropriate credits for foreign income taxes paid. Such earnings would become taxable upon the sale or liquidation of these non-U.S. subsidiaries or upon the remittance of dividends. Upon remittance, certain foreign countries impose withholding taxes that are then available, subject to certain limitations, for use as credits against our U.S. tax liability, if any.

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

	January 31,	
	2008	2007
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and sales adjustments	\$ 1,240	\$ 575
Accrued vacation	2,078	1,522
Accrued commissions	843	845
Alternative minimum tax (AMT) credits	608	830
Research and development credits	7,247	5,077
Foreign tax credits	209	209
Deferred revenue	3,101	2,181
Depreciation and amortization	174	164
Net operating loss carry forwards	15,399	18,242
Stock compensation	3,317	1,692
Other	2,179	766
Total deferred tax assets	36,395	32,103
Less valuation allowance	(13,744)	(13,899)
Deferred tax assets, net of valuation allowance	<u>\$ 22,651</u>	<u>\$ 18,204</u>
Deferred tax liabilities:		
Capitalized software development costs	\$ 950	\$ 682
Intangibles	1,372	1,345
State income taxes	2,397	1,555
Unrecognized capital gain	1,039	940
Other	1,950	241
Total deferred tax liabilities	7,708	4,763
Total net deferred tax asset	<u>\$ 14,943</u>	<u>\$ 13,441</u>
Current portion of deferred tax asset, net	7,262	2,941
Non-current portion of deferred tax asset, net	7,681	10,500
Total net deferred tax asset	<u>\$ 14,943</u>	<u>\$ 13,441</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management determined that certain tax benefits associated with previously reserved net deferred tax assets were more likely than not realizable through future taxable income and future reversals of existing taxable temporary differences. As a result, the Company recorded a tax benefit of \$10.5 million during the year ended January 31, 2006, resulting from the reduction of previously recorded valuation allowances against net deferred tax assets. The Company continues to evaluate the realizability of its net deferred tax assets and the need to record a valuation allowance. At January 31, 2008 and 2007, the valuation allowance attributable to deferred tax assets was \$13.7 million and \$13.9 million, respectively.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. INCOME TAXES (Continued)

As a result of SFAS 123R, deferred tax assets at January 31, 2008 and 2007 do not include \$1.3 million and \$0.7 million, respectively, of excess tax benefits from employee stock exercises that are a component of research and development credits and net operating loss carryovers. Equity will be increased by \$1.3 million if and when such excess tax benefits are ultimately realized.

The Company has net operating loss carryforwards of \$56 million and tax credit carryforwards of \$7.2 million as of January 31, 2008. The foreign net operating loss carryforwards of \$56 million expire from fiscal year 2009 to unlimited carryover. The U.S. federal and state tax credit carryforwards of \$7.2 million expire at various expiration dates beginning in fiscal 2012 for federal and unlimited carryover for state.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) effective February 1, 2007, the beginning of its fiscal year ending January 31, 2008. As a result of the adoption of FIN 48, the Company decreased its reserves for uncertain tax positions by \$0.7 million. Interest and penalties on accrued but unpaid taxes are classified in the Consolidated Statements of Income as income tax expense. Under FIN 48, the liability for unrecognized tax benefits is classified as long-term in the Company's Consolidated Balance Sheets unless the liability is expected to conclude within twelve months of the reporting date.

The following table reconciles the gross amounts of unrecognized tax benefits at the beginning and end of the period:

	<u>Gross Amount</u> <u>(in thousands)</u>
Unrecognized tax benefits at February 1, 2007	\$ 2,409
Increases as a result of tax positions taken in a prior period	4
Decreases as a result of tax positions taken in a prior period	(68)
Unrecognized tax benefit at January 31, 2008	<u>\$ 2,345</u>

All of the unrecognized tax benefits included in the balance sheet at January 31, 2008 would benefit the effective tax rate on income from continuing operations, if recognized.

The total amount of interest expense recognized in the Consolidated Statements of Income for unpaid taxes is immaterial for the year ended January 31, 2008. The total amount of interest and penalties recognized in the Consolidated Balance Sheet at January 31, 2008 is \$0.2 million.

Due to potential settlements with foreign tax authorities in the next twelve months related to withholding and certain deductions, an estimated \$0.3 million of gross unrecognized tax benefits may be recognized during the next twelve month period.

The Company files U.S., state, and foreign income tax returns in jurisdictions with varying statute of limitations. The years that may be subject to examination will vary by jurisdiction due to different statute of limitation expiration dates. The federal and the major state jurisdictions in the U.S. will remain subject to examination for the fiscal years ended 2002 and later by their respective tax authorities. In Ireland, the fiscal years ended 1999 and later remain subject to examination by the tax authorities. In the other significant foreign jurisdictions, the fiscal years ended 2002 through 2004 and thereafter generally remain subject to examination by their respective tax authorities.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution 401(k) plan which is available to U.S. employees after 30 days of employment. Employees may contribute up to the maximum allowable by the Internal Revenue Code. The Company matches 75% of the employees' contributions up to the first four percent of the employee's eligible contribution. In addition, the Company can make additional contributions at the discretion of the board of directors. Participants are immediately vested in their employee contributions. Employer contributions vest over a five-year period. The Company's contributions for fiscal 2008, 2007 and 2006 were \$1.2 million, \$1.0 million and \$0.9 million, respectively.

Various QAD foreign subsidiaries also contribute to what can be considered defined contribution pension plans. Employer contributions in these plans are generally based on employee salary and range from 5% to 50%. These plans are funded at various times throughout the year according to plan provisions, with aggregate employer contributions of \$2.7 million, \$2.2 million and \$1.8 million during fiscal 2008, 2007 and 2006, respectively.

9. COMMITMENTS AND CONTINGENCIES*Lease Obligations*

The Company leases certain office facilities, office equipment and automobiles under operating lease agreements. Total rent expense was \$7.8 million for fiscal 2008, \$7.4 million for fiscal 2007 and \$6.9 million for fiscal 2006. Future minimum rental payments under non-cancelable operating lease commitments with terms of more than one year as of January 31, 2008 are as follows: \$8.6 million in fiscal 2009; \$5.6 million in fiscal 2010; \$3.4 million in fiscal 2011; \$2.4 million in fiscal 2012; \$1.5 million in fiscal 2013 and \$3.5 million in total thereafter. Future minimum rentals to be received under non-cancelable subleases with terms more than one year as of January 31, 2008 are equal to \$1.4 million.

Exit Costs

In fiscal 2005, in connection with the move from leased office space to its new headquarters in Santa Barbara, California, the Company entered into a sublease agreement for approximately 60% of the previously leased office space in Carpinteria, California. In fiscal 2006, the Company vacated the remaining leased office space for which a sublease agreement could not be secured.

In fiscal 2008, the sublease agreement with the original tenant was terminated and the Company entered into a sublease agreement with a new tenant for the entire leased office space. These activities resulted in exit costs, primarily due to declines in fair market value of estimated sublease income, of \$0.1 million, \$0.7 million and \$1.1 million in fiscal 2008, 2007 and 2006, respectively.

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 agreement generally limits the scope of and remedies for such indemnification obligations in a variety of industry-standard respects, including, but not limited to, certain time-based and geography-based scope limitations and a right to replace an infringing product.

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.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

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 operates in geographic business segments. The North America region includes the United States, Canada and Trinidad. 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.

The geographic business segments derive revenue from the sale of licenses, maintenance and services to third party customers. License revenue is assigned to the regions based on the proportion of commission 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.

Operating income (loss) attributable to each business segment is based on management's assignment of revenue and costs. Regional cost of revenue includes the cost of goods produced by the Company's manufacturing operations at the price charged to the distribution operation. Income from manufacturing operations and costs of research and development are included in the corporate operating segment.

Property and equipment, net and capital expenditures are assigned by geographic region based on the location of each legal entity. This is in contrast to depreciation and amortization expense, which is allocated both to corporate and the geographic regions based on management's assignment of costs.

As the Company's headquarters are located in the United States, a significant amount of corporate property and equipment are assigned to the North America region. Capital expenditures within the North America region included \$2.1 million in fiscal 2006, related to the construction of and building improvements for the Company headquarters.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. BUSINESS SEGMENT INFORMATION (Continued)

	Years Ended January 31,		
	2008	2007	2006
	(in thousands)		
Revenue:			
North America (1)	\$ 115,924	\$ 101,983	\$ 94,127
EMEA	82,551	78,641	76,287
Asia Pacific	45,977	38,500	40,232
Latin America	18,295	16,463	14,848
	<u>\$ 262,747</u>	<u>\$ 235,587</u>	<u>\$ 225,494</u>
Operating income (loss):			
North America	\$ 17,011	\$ 18,974	\$ 16,760
EMEA	2,592	65	(224)
Asia Pacific	2,714	2,588	2,428
Latin America	295	(519)	(496)
Corporate	(17,024)	(12,971)	(2,843)
	<u>\$ 5,588</u>	<u>\$ 8,137</u>	<u>\$ 15,625</u>
Depreciation and amortization:			
North America	\$ 574	\$ 486	\$ 500
EMEA	1,081	2,017	1,351
Asia Pacific	521	874	648
Latin America	201	390	412
Corporate	7,040	4,493	4,469
	<u>\$ 9,417</u>	<u>\$ 8,260</u>	<u>\$ 7,380</u>
Capital expenditures:			
North America	\$ 3,377	\$ 2,880	\$ 4,935
EMEA	1,141	784	815
Asia Pacific	396	816	1,260
Latin America	251	151	215
	<u>\$ 5,165</u>	<u>\$ 4,631</u>	<u>\$ 7,225</u>
		January 31,	
	2008	2007	
	(in thousands)		
Property and equipment, net:			
North America	\$ 34,682	\$ 34,910	
EMEA	6,082	5,458	
Asia Pacific	1,247	1,706	
Latin America	439	322	
	<u>\$ 42,450</u>	<u>\$ 42,396</u>	

(1) North America revenue includes sales into Canada and Trinidad, which in total accounted for 3% of total revenue in both fiscal years 2008 and 2007 and 4% in fiscal year 2006.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION

Stock Plans

On June 7, 2006, the shareholders approved the QAD Inc. 2006 Stock Incentive Program (2006 Program). The 2006 Program replaces the QAD 1997 Stock Incentive Program (1997 Program). Concurrently, the shareholders authorized a maximum of 5.3 million shares to be issued under the 2006 Program – 4 million newly authorized shares and 1.3 million shares previously authorized for use in the 1997 Program. The 2006 Program allows for incentive stock options, non-statutory stock options, restricted shares, rights to purchase stock, stock appreciation rights (SARs), and other stock rights. As of January 31, 2008, 2.4 million shares were available for issuance.

After the 2006 Program was adopted in June 2006, the Company began issuing the majority of equity awards in the form of stock-settled SARs. A SAR is a contractual right to receive value tied to the post-grant appreciation of the underlying stock. Although the Company has the ability to grant stock-settled or cash-settled SARs, the Company has only granted stock-settled SARs. Upon vesting, a holder of a stock-settled SAR receives shares in the Company's common stock equal to the intrinsic value of the SAR at time of exercise. Economically, a stock-settled SAR provides the same compensation value as a stock option, but the employee is not required to pay an exercise price upon exercise of the SAR. In addition, the dilution effect of SARs on the Company's stock is less than traditional stock options. Stock compensation expense, as required under SFAS 123R, is the same for stock-settled SARs and stock options. In the second quarter of fiscal 2008, the Company also began issuing restricted stock units (RSUs) to board members and select executives.

At January 31, 2008, there were 3.1 million non-statutory stock options outstanding under the 1997 Program. Effective with the adoption of the 2006 Program, no further awards were granted using the 1997 Program. The 1997 Program replaced the QAD Inc. 1994 Stock Incentive Program (the 1994 Program). At January 31, 2007, there were 80,000 non-statutory stock options outstanding under the 1994 Program. No action was taken on these non-statutory stock options and they expired on February 1, 2007.

Under the 1997 Program and the 2006 Program, non-statutory stock options and SARs (equity awards) have generally been granted for a term of eight years. Under the 1994 Program, non-statutory stock options were generally granted for a term of ten years. Under all three programs, equity awards granted to employees generally vest 25% after each year of service for four years and are contingent upon employment with the Company on the vesting date. RSUs granted to employees under the 2006 Program vest 25% after each year of service for four years and are contingent upon employment with the Company on the vesting date. Under the 2006 Program and 1997 Program, equity awards of non-statutory stock options and SARs to non-employee directors generally vest over three years and are contingent upon providing services to the Company.

Under all three programs, officers, directors, employees, consultants and other independent contractors or agents of the Company or subsidiaries of the Company who are responsible for or contribute to the management, growth or profitability of its business are eligible for selection by the program administrators to participate. However, incentive stock options granted under the 2006 Program or the 1997 Program may only be granted to a person who is an employee of the Company or one of its subsidiaries.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION (Continued)

Stock Based Compensation

On February 1, 2006, the Company adopted SFAS 123R "Share-Based Payment", which requires recognition of stock-based compensation expense for all equity awards using the fair-value measurement method.

The following table sets forth, for the periods indicated, reported stock compensation expense for the years ended January 31, 2008, 2007 and 2006.

	Years Ended January 31,		
	2008	2007	2006
	(in thousands)		
Stock-based compensation expense:			
Cost of maintenance, service and other revenue	\$ 1,104	\$ 990	\$ 110
Sales and marketing	1,458	1,290	—
Research and development	861	918	—
General and administrative	2,783	2,263	98
Total stock-based compensation expense	\$ 6,206	\$ 5,461	\$ 208

Prior to the adoption of SFAS 123R, the Company accounted for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25. As presented below, the Company applied the disclosure provisions of SFAS 123, as amended by SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" as if the fair value method had been applied. If this method had been used, the Company's net income and earnings per share for the year ended January 31, 2006 would have been adjusted to the pro forma amounts below (in thousands except per share data):

	Year Ended January 31, 2006
Net income as reported	\$ 20,539
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	130
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>3,277</u>
Pro forma net income	<u>\$ 17,392</u>
Net income per share:	
As reported:	
Basic	\$ 0.63
Diluted	0.61
Pro forma:	
Basic	\$ 0.53
Diluted	0.52

In accordance with SFAS 123R, the Company presents any benefits of realized tax deductions in excess of recognized compensation expense as cash flow from financing activities in the accompanying Consolidated Statement of Cash Flows, rather than as cash flow from operating activities, as was prescribed under accounting rules applicable prior to adoption of SFAS 123R. There were \$0.2 million excess tax benefits recorded for equity awards exercised in the year ended January 31, 2008 and no such benefits in the year ended January 31, 2007, as those tax benefits were not realized as a reduction to income taxes payable.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. STOCK-BASED COMPENSATION (Continued)

The weighted average assumptions used to value the option grants, SARs and the employee stock purchase plan (ESPP) are shown in the following table. As the ESPP was terminated effective January 1, 2006, no data is provided for the years ended January 31, 2007 and January 31, 2008.

	Years Ended January 31,					
	2008		2007		2006	
	Stock Options /SARs	ESPP	Stock Options /SARs	ESPP	Stock Options	ESPP
Expected life in years (1)	5.25	—	5.22	—	5.00	0.25
Risk free interest rate (2)	4.58%	—	4.93%	—	4.24%	3.68%
Volatility (3)	59%	—	71%	—	81%	32%
Dividend rate (4)	1.05%	—	1.30%	—	1.28%	1.28%

- (1) The expected life of options and SARs granted under the stock plans is based on historical exercise patterns, which the Company believes are representative of future behavior.
- (2) The risk-free interest rate is based on the U.S. Treasury yield for a term consistent with the expected life of the equity awards 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, which it believes is representative of the expected volatility over the expected life of the equity award.
- (4) The Company expects to continue paying quarterly dividends at the same rate as it has over the last year.

The following table summarizes the activity for outstanding options and SARs for the twelve months ended January 31, 2008:

	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, 2007	5,634	\$ 7.38	5.4	\$ 7,472
Granted	1,141	9.14		
Exercised	(709)	4.26		
Expired	(179)	11.10		
Forfeited	(259)	8.04		
Outstanding at January 31, 2008	5,628	\$ 7.98	5.4	\$ 7,273
Vested and expected to vest at January 31, 2008 (1)	5,003	\$ 7.95	5.3	\$ 6,707
Vested and exercisable at January 31, 2008	2,540	\$ 7.60	4.2	\$ 4,661

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

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 on January 31, 2008 and the exercise price for in-the-money options) that would have been received by the option holders if all options and SARs had been exercised on January 31, 2008. The total intrinsic value of options and SARs exercised in the years ended January 31, 2008, 2007 and 2006 was \$3.3 million, \$2.7 million and \$2.9 million respectively. The weighted average grant date fair value per share of options/SARs granted in the years ended January 31, 2008, 2007 and 2006 was \$4.65, \$4.12 and \$4.85, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**11. STOCK-BASED COMPENSATION (Continued)**

The estimated fair value of the RSUs was calculated based on the market price of the Company's common stock on the date of grant, reduced by the present value of dividends foregone during the vesting period. During the twelve months ended January 31, 2008, 334,000 RSUs were issued with a weighted average grant date fair value of \$8.17 per share and as of January 31, 2008, all 334,000 RSUs remain outstanding.

At January 31, 2008, there was approximately \$8.9 million of total unrecognized compensation cost related to unvested stock options and unvested SARs. This cost is expected to be recognized over a weighted-average period of approximately 1.4 years. Total unrecognized compensation cost related to RSUs and restricted stock awards was approximately \$2.3 million as of January 31, 2008. This cost is expected to be recognized over a period of approximately 3.0 years.

Net cash received from option and SARs exercises for the year ended January 31, 2008 was \$2.9 million.

12. STOCKHOLDERS' EQUITY*Stock Repurchase Programs*

On September 6, 2007, the Company's Board of Directors approved a stock repurchase program which authorized management to purchase up to one million shares of the Company's common stock over the course of one year. This program is currently open at January 31, 2008.

On May 16, 2007, the Company's Board of Directors approved a stock repurchase program which authorized the repurchase of up to one million shares of the Company's common stock for a one-year period. On June 7, 2007, the Board of Directors increased the authorized shares under the repurchase program from one million to 1.5 million. This repurchase program was completed as of July 31, 2007.

In May 2006, the Company's Board of Directors approved a stock repurchase program authorized for one year to buy up to one million shares of the Company's common stock. No shares were repurchased under the May 2006 program during fiscal 2008, and the plan expired on May 17, 2007.

Stock Repurchase Activity

In fiscal 2008, the Company repurchased approximately 2.2 million shares at an average price of \$8.37 per share, including fees, for total consideration of \$18.7 million. Of the 2.2 million shares repurchased in fiscal 2008, one million shares were repurchased in a single privately negotiated transaction.

In fiscal 2007, the Company repurchased approximately 794,000 shares of its common stock at an average repurchase price of \$7.56 per share for total cash consideration of \$6.0 million, including fees.

In fiscal 2006, the Company purchased from Recovery Equity Investors II, L.P. ("REI"), a Delaware limited partnership, 2 million shares of the Company's common stock for \$7.40 per share for a total purchase price of \$14.8 million. Prior to the transaction, REI owned 3,002,778 shares of the company's common stock.

13. OTHER (INCOME) EXPENSE, NET

In fiscal 2006, the Company received a payment related to a dispute of \$0.5 million from an insurance company that represented a former QAD country manager. In return for the payment, the Company dropped all claims against the former country manager and certain third-parties. The dispute is related to activities in 1997 in a location outside of the United States. The payment is included in "Other (income) expense, net" in the Company's fiscal 2006 Consolidated Statement of Income.

QAD INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. QUARTERLY INFORMATION (Unaudited)

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31(1),(2)
	(in thousands, except per share data)			
Fiscal 2008				
Total revenue	\$ 56,644	\$ 64,197	\$ 66,608	\$ 75,298
Gross profit	31,862	37,345	38,494	44,180
Operating income (loss)	(3,012)	726	3,156	4,718
Net income (loss)	(1,892)	544	1,516	5,248
Basic net income (loss) per share	\$ (0.06)	\$ 0.02	\$ 0.05	\$ 0.17
Diluted net income (loss) per share	(0.06)	0.02	0.05	0.16
Fiscal 2007				
Total revenue	\$ 53,407	\$ 58,367	\$ 57,324	\$ 66,489
Gross profit	31,802	35,422	34,161	40,655
Operating income	389	1,240	1,264	5,244
Net income	1,409	1,120	947	3,800
Basic net income per share	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.12
Diluted net income per share	0.04	0.03	0.03	0.12

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- (1) During the quarter ended January 31, 2008, the Company recorded adjustments related to its transfer pricing arrangements related to each of the prior three quarters in an amount totaling \$0.3 million, which together with certain of the revision adjustments described in Note 1, netted to \$0.2 million, net of tax, in out of period impact to the quarter ended January 31, 2008. The impact to each of the quarters in fiscal 2008 was not considered material.
- (2) In accordance with Staff Accounting Bulletin No. 108, GAAP results for the quarter ended January 31, 2007 have been revised from previously reported amounts. The impact of the revisions resulted in a reduction to net income of \$0.4 million and a reduction to diluted EPS of \$0.01.

SCHEDULE II
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	Balance at Beginning of Period	Charged (Credited) to Statements of Income	Deletions	Acquisitions	Impact of Foreign Currency Translation	Balance at End of Period
Year ended January 31, 2006						
Allowance for doubtful accounts	\$ 1,093	\$ 441	\$ (423)	\$ —	\$ 25	\$ 1,136
Allowance for sales adjustments	2,589	(77)	(561)	—	29	1,980
Total allowances	<u>\$ 3,682</u>	<u>\$ 364</u>	<u>\$ (984)</u>	<u>\$ —</u>	<u>\$ 54</u>	<u>\$ 3,116</u>
Year ended January 31, 2007						
Allowance for doubtful accounts	1,136	365	(250)	—	1	1,252
Allowance for sales adjustments	1,980	264	(239)	520	26	2,551
Total allowances	<u>\$ 3,116</u>	<u>\$ 629</u>	<u>\$ (489)</u>	<u>\$ 520</u>	<u>\$ 27</u>	<u>\$ 3,803</u>
Year ended January 31, 2008						
Allowance for doubtful accounts	1,252	249	(160)	—	(53)	1,288
Allowance for sales adjustments	2,551	441	(484)	—	(139)	2,369
Total allowances	<u>\$ 3,803</u>	<u>\$ 690</u>	<u>\$ (644)</u>	<u>\$ —</u>	<u>\$ (192)</u>	<u>\$ 3,657</u>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 15, 2008.

QAD Inc.

By: /s/ Daniel Lender

Daniel Lender
Chief Financial Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Pamela M. Lopker</u> Pamela M. Lopker	Chairman of the Board, President	April 15, 2008
<u>/s/ Karl F. Lopker</u> Karl F. Lopker	Director, Chief Executive Officer (Principal Executive Officer)	April 15, 2008
<u>/s/ Daniel Lender</u> Daniel Lender	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 15, 2008
<u>/s/ Kara Bellamy</u> Kara Bellamy	Vice President, Corporate Controller (Chief Accounting Officer)	April, 15, 2008
<u>/s/ Scott Adelson</u> Scott Adelson	Director	April 15, 2008
<u>/s/ Terry Cunningham</u> Terry Cunningham	Director	April 15, 2008
<u>/s/ Peter R. van Cuylenburg</u> Peter R. van Cuylenburg	Director	April 15, 2008
<u>/s/ Tom O'Malia</u> Tom O'Malia	Director	April 15, 2008
<u>/s/ Lee Roberts</u> Lee Roberts	Director	April 15, 2008

INDEX OF EXHIBITS

EXHIBIT NUMBER	EXHIBIT TITLE
3.1	Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on May 15, 1997 ⁽¹⁾
3.2	Certificate of Amendment of Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on June 19, 1997 ⁽¹⁾
3.3	Certificate of Amendment to Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on July 29, 2005 ⁽²²⁾
3.4	Bylaws of the Registrant ⁽¹⁾
4.1	Specimen Stock Certificate ⁽¹⁾
10.1	QAD Inc. 1994 Stock Ownership Program ⁽¹⁾
10.2	QAD Inc. 1997 Stock Incentive Program ⁽¹⁾
10.3	Form of Indemnification Agreement with Directors and Executive Officers ⁽¹⁾
10.4	Master License Agreement between the Registrant and Progress software Corporation dated June 30, 1995 ^{(1)†}
10.5	Lease Agreement between the Registrant and Matco Enterprises, Inc. for Suites I, K and L located at 5464 Carpinteria Ave., Carpinteria, California dated November 30, 1992 ⁽¹⁾
10.6	First Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites C and H located at 5464 Carpinteria Ave., Carpinteria, California dated September 9, 1993 ⁽¹⁾
10.7	Second Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite J located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994 ⁽¹⁾
10.8	Third Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites B and C located at 5464 Carpinteria Ave., Carpinteria, California dated January 14, 1994 ⁽¹⁾
10.9	Fourth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suite H located at 5464 Carpinteria Ave., Carpinteria, California dated February 15, 1994 ⁽¹⁾
10.10	Fifth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. or Suites G and E located at 5464 Carpinteria Ave., Carpinteria, California dated September 12, 1994 ⁽¹⁾
10.11	Sixth Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites A, B, D, F and H, and Room A located at 5464 Carpinteria Ave., Carpinteria, California dated October 30, 1996 ⁽¹⁾
10.12	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾
10.13	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 3 through 8 located at 6430 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾
10.14	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾
10.15	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for 6450 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾
10.16	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾

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EXHIBIT NUMBER	EXHIBIT TITLE
10.17	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 1 through 5 located at 6460 Via Real, Carpinteria, California dated November 30, 1993 ⁽¹⁾
10.18	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995 ⁽¹⁾
10.19	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 7 and 8 located at 6440 Via Real, Carpinteria, California dated September 8, 1995 ⁽¹⁾
10.20	Lease Agreement between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995 ⁽¹⁾
10.21	Addendum to Lease between the Registrant and William D. and Edna J. Wright dba South Coast Business Park for Suites 9 and 10 located at 6440 Via Real, Carpinteria, California dated September 8, 1995 ⁽¹⁾
10.22	Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993 ⁽¹⁾
10.23	Amendment to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated April 26, 1994 ⁽¹⁾
10.24	Second Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners, LP III, dated May 30, 1995 ⁽¹⁾
10.25	Third Amendment to Multi-Tenant Lease Agreement between the Registrant and EDB Property Partners L.P. I dated November 30, 1995 ⁽¹⁾
10.26	Agreement and Plan of Merger between QAD California and the Registrant dated July 8, 1997 ⁽¹⁾
10.27	Standard Industrial Commercial Multi-Tenant Lease — Modified Net dated as of December 29, 1997 between the Registrant and CITO Corp. ⁽²⁾
10.28	Lease Agreement between the Registrant and Goodaston Limited for Unit 1 Phase 8 Business Park, The Waterfront Merry Hill, West Midlands, United Kingdom, dated April 30, 1996 ⁽²⁾
10.29	Eight Amendment to Office Lease between the Registrant and Matco Enterprises, Inc. for Suites I, K, L, C, J and Basement Room B located at 5464 Carpinteria Avenue, Carpinteria, California dated February 18, 1999 ⁽⁴⁾
10.30	Stock Purchase Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999 ⁽⁵⁾
10.31	Registration Rights Agreement between the Registrant and Recovery Equity Investors II, L.P. dated December 23, 1999 ⁽⁵⁾
10.32	Stock Purchase Agreement between the Registrant and Enterprise Engines, Inc. dated December 15, 1999 ⁽⁵⁾
10.33	Non-Competition Agreement between the Registrant and David A. Taylor and Enterprise Engines, Inc. dated December 15, 1999 ⁽⁵⁾
10.34	Ninth Amendment to office lease between the Registrant and Matco Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Avenue, Carpinteria, California dated August 23, 1999 ⁽⁵⁾
10.35	Third Amendment to Credit Agreement between QAD Inc. and Bank One, NA ⁽⁶⁾
10.36	Fourth Amendment to Credit Agreement between QAD Inc. and Bank One, NA ⁽⁶⁾
10.37	Fifth Amendment to Credit Agreement between QAD Inc. and Bank One, NA ⁽⁶⁾

EXHIBIT NUMBER	EXHIBIT TITLE
10.38	Tenth Amendment to the office lease between the Registrant and MATCO Enterprises, Inc. for Suites G and E located at 5464 Carpinteria Avenue, Carpinteria, California dated August 1, 2000 ⁽⁷⁾
10.39	Eleventh Amendment to the office lease between the Registrant and MATCO Enterprises, Inc. for Suites I, J, K and L located at 5464 Carpinteria Avenue, Carpinteria, California dated November 16, 2000 ⁽⁷⁾
10.40	Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated September 8, 2000 ⁽⁷⁾
10.41	San Francisco Technology License Agreement between the Registrant and International Business Machines Corporation dated November 30, 1999 ^{(8)†}
10.42	Lease Agreement between the Registrant and The Wright Family C Limited Partnership for Building A located at 6410 Via Real, Carpinteria, California dated February 10, 2001 ⁽⁹⁾
10.43	Lease Renewal Letter dated February 21, 2001, related to Multi-Tenant Office Lease Agreement between the Registrant and EDB Property Partners, LP III, successor to Laurel Larchmont Office, Inc. located at 10,000 Midlantic Drive, Mt. Laurel, New Jersey dated December 29, 1993 ⁽¹⁾⁽⁹⁾
10.44	First Amendment to the Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated December 13, 2001 ⁽¹⁰⁾
10.45	Lease Agreement between the Registrant and Vof Forward Erenha for office space located at Beechavenue 125, 1119 RB Schiphol Rijk, The Netherlands, dated December 24, 2001 ⁽¹¹⁾
10.46	Architectural Services Agreement between the Registrant and Lenvik & Minor Architects dated May 29, 2002 ⁽¹²⁾
10.47	Master Services Agreement between the Registrant and Equant, Inc. dated June 6, 2002 ^{(†)(12)}
10.48	Consulting Agreement between the Registrant and Ove Arup & Partners California dated June 12, 2002 ⁽¹²⁾
10.49	Second Amendment to the Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated July 31, 2002 ⁽¹²⁾
10.50	Lease Termination Agreement between the Registrant and Brandywine Operating Partnership, L.P. dated September 19, 2002 ⁽¹³⁾
10.51	Contractor agreement between the Registrant and Melchiori Construction Company dated October 30, 2002 ⁽¹³⁾
10.52	Agreement for Interior Design Services between the Registrant and DMJM Rottet dated October 30, 2002 ⁽¹³⁾
10.53	Stock and Asset Purchase Agreement by and among BDM International, Inc., TRW Integrated Supply Chain Solutions GMBH, TRW Integrated Supply Chain Solutions, Inc. and TRW Inc. on the one hand and Pistach EMEA Holdings, B.V. and QAD Inc. on the other hand dated November 12, 2002 ^{(†)(14)}
10.54	Agreement for Landscaping and Improvements between the Registrant and the County of Santa Barbara dated November 1, 2002 ⁽¹⁵⁾
10.55	Construction Loan Agreement between the Registrant and Santa Barbara Bank & Trust dated November 18, 2002 ⁽¹⁵⁾
10.56	Amendment to the Loan and Security Agreement between the Registrant and Foothill Capital Corporation dated March 18, 2003 ⁽¹⁵⁾
10.57	Amendment to the Loan and Security Agreement between the Registrant and Foothill Capital Corporation effective as of April 29, 2003 ⁽¹⁶⁾
10.58	Amendment to the Loan and Security Agreement between the Registrant and Wells Fargo Foothill, Inc. effective as of April 28, 2004 ⁽¹⁷⁾
10.59	Promissory Note between the Registrant and Mid-State Bank & Trust effective as of July 28, 2004 ⁽¹⁸⁾

EXHIBIT NUMBER	EXHIBIT TITLE
10.60	Amendment to the Loan and Security Agreement between the Registrant and Wells Fargo Foothill, Inc. effective as of October 31, 2004 ⁽¹⁹⁾
10.61	Sublease agreement between the Registrant and Somera Communications Inc. dated November 29, 2004 ⁽¹⁹⁾
10.62	Amendment to the Loan and Security Agreement between the Registrant and Wells Fargo Foothill, Inc. effective as of March 21, 2005 ⁽¹⁹⁾
10.63	Loan Agreement between the registrant and Comerica Bank effective as of April 7, 2005 ⁽¹⁹⁾
10.64	Termination letter of the Loan and Security Agreement between the Registrant and Wells Fargo Foothill, Inc. effective as of April 6, 2005 ⁽¹⁹⁾
10.65	First Amendment to the loan agreement between the Registrant and Comerica Bank effective as of May 9, 2005 ⁽²⁰⁾
10.66	Agreement on the sale of a business between the Registrant and NV Soft Cell dated March 20, 2006 ⁽²¹⁾
10.67	Lease Agreement between the Registrant and Brandywine Operating Partnership, L.P. dated April 4, 2006 ⁽²¹⁾
10.68	QAD Inc. 2006 Stock Incentive Program ⁽²³⁾
10.69	Technical Services Agreement between the Registrant and Vincent P. Niedzielski effective March 12, 2007 ⁽²⁴⁾
10.70	Settlement and Release Agreement between the Registrant and Vincent P. Niedzielski dated March 14, 2007 ⁽²⁴⁾
10.71	Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 10, 2008
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm
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

-
- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (Commission File No. 333-28441)
- (2) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 1999 filed April 30, 1999 (Commission File No. 0-22823)
- (3) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 1999 filed June 14, 1999 (Commission No. 0-22823)
- (4) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 1999 filed September 14, 1999 (Commission No. 0-22823)
- (5) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2000 (Commission No. 0-22823)

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- (6) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2000 filed June 13, 2000 (Commission No. 0-22823)
- (7) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended October 31, 2000 filed December 15, 2000 (Commission No. 0-22823)
- (8) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2001 (Commission No. 0-22823)
- (9) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2001 filed June 14, 2001 (Commission No. 0-22823)
- (10) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended October, 31, 2001 filed December 14, 2001 (Commission No. 0-22823)
- (11) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2002 (Commission No. 0-22823)
- (12) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 2002 filed September 15, 2002 (Commission No. 0-22823)
- (13) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended October 31, 2002 filed December 14, 2002 (Commission No. 0-22823)
- (14) Incorporated by reference to the Registrant's Current Report on Form 8-K filed November 27, 2002 (Commission No. 0-22823)
- (15) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2003 (Commission No. 0-22823)
- (16) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2003 (Commission No. 0-22823)
- (17) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2004 (Commission No. 0-22823)
- (18) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 2004 (Commission No. 0-22823)
- (19) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2005 (Commission No. 0-22823)
- (20) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2005 (Commission No. 0-22823)
- (21) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended April 30, 2006 (Commission No. 0-22823)
- (22) Incorporated by reference to the Registrant's Quarterly Report for the quarter ended July 31, 2006 (Commission No. 0-22823)
- (23) Incorporated by reference to the Registrant's Registration Statement on Form S-8 (Commission File No. 333-137417)
- (24) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended January 31, 2007 (Commission No. 0-22823)
- (†) Certain portions of exhibit have been omitted based upon a request for confidential treatment. The omitted portions have been separately filed with the Securities and Exchange Commission.

CREDIT AGREEMENT

Dated as of April 10, 2008

between

QAD INC.

and

BANK OF AMERICA, N.A.

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5.05 Supplement to Interim Financial Statements

5.13 Subsidiaries and Other Equity Investments

7.01 Existing Liens

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9.02 Notice Addresses and Lending Office

EXHIBITS

Form of

A Loan Notice

B Note

C Compliance Certificate

D Guaranty

CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of April 10, 2008 by and between QAD INC., a Delaware corporation (the "Borrower") and Bank of America, N.A. (the "Lender").

The Borrower has requested that the Lender provide a revolving credit facility, and the Lender is willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I. DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquired Entity" means (a) any Person that becomes a Subsidiary of the Borrower as a result of an Acquisition or (b) any business entity or division thereof, all or substantially all of the assets and business of which are acquired by a Subsidiary of the Borrower pursuant to an Acquisition.

"Acquisition" means any transaction or series of related transactions for the purpose of or resulting, directly or indirectly, in (a) the acquisition of all or substantially all of the assets of a Person, or of any business or division of a Person (other than a Person that is a Subsidiary), (b) the acquisition of in excess of 50% of the capital stock, partnership interests, membership interests or equity of any Person (other than a Person that is a Subsidiary), or otherwise causing any Person to become a Subsidiary, or (c) a merger or consolidation or any other combination with another Person (other than a Person that is a Subsidiary).

"Affiliate" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agreement" means this Credit Agreement.

“Applicable Rate” means the following percentages per annum, based upon the Consolidated Total Leverage Ratio as set forth in the most recent Compliance Certificate received by the Lender pursuant to Section 6.02(a):

APPLICABLE RATE

<u>Pricing Level</u>	<u>Consolidated Total Leverage Ratio</u>	<u>Commitment Fee</u>	<u>Eurodollar Rate + / Letters of Credit</u>	<u>Base Rate +</u>
1	≤ 0.75:1	0.25%	0.75%	-0.25%
2	>0.75:1 but ≤ 1.25:1	0.375%	1.25%	0.0%
3	>1.25:1	0.50%	1.75%	0.25%

Any increase or decrease in the Applicable Rate resulting from a change in the Consolidated Total Leverage Ratio shall become effective as of the first Business Day immediately following the date a Compliance Certificate is delivered pursuant to Section 6.02(a); provided, however, that if a Compliance Certificate is not delivered when due in accordance with such Section, the next higher Pricing Level shall apply as of the fifth Business Day after the date on which such Compliance Certificate was required to have been delivered, with the next higher Pricing Level to apply as of each Business Day thereafter that the Compliance Certificate was not delivered until the applicable Pricing Level is Pricing Level 3; provided, further, that as of the first Business Day after the date on which such Compliance Certificate is delivered, the Pricing Level shall revert to the applicable Pricing Level pursuant to such Compliance Certificate. The Applicable Rate in effect from the Closing Date through the date the Compliance Certificate in respect of the fiscal quarter ending January 31, 2008 is delivered or required to be delivered shall be determined based upon Pricing Level 1.

“Approved Fund” has the meaning specified in Section 9.07(f).

“Attributable Indebtedness” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended January 31, 2007, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto.

“Authorized Signatory” has the meaning specified in Section 2.02(a).

“Availability Period” means the period from and including the Closing Date to the earlier of (a) the Maturity Date and (b) the date of termination of the Commitment.

“Base Rate” means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by the Lender as its “prime rate.” The “prime rate” is a rate set by the Lender based upon various factors including the Lender’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by the Lender shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrowing” means a borrowing consisting of simultaneous Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by the Lender pursuant to Section 2.01.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Lending Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Capital Expenditures” means, in respect of any Person, for any period: (i) any payment that is made during such period by a Person plus (ii) the aggregate amount of any Indebtedness incurred by such Person during such period, in each case for (or in connection with) the rental, lease, purchase, construction or use of any property the value or cost of which, under GAAP should be capitalized or appear on such Person’s balance sheet, without regard to the manner in which such payments (or the instrument pursuant to which they are made) are characterized by such Person or any other Person.

“Cash Collateralize” has the meaning specified in Section 2.03(f).

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

“Change of Control” means an event or series of events by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding (x) any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan and (y) Ms. Pamela Lopker, Mr. Karl Lopker, the Lopker Living Trust, the Lopker Family 1997 Charitable Remainder Trust, the Lopker Family Foundation, and any testamentary or intervivos trust as to which Pamela Lopker or Karl Lopker are trustees and as to which they, or any of their children or descendants and their respective spouses are the majority beneficiaries) (such Persons under this clause (y), collectively, the “Controlling Shareholders”) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire (such right, an “option right”), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right);

(b) a majority of the members of the board of directors or other equivalent governing body of the Borrower cease to be composed of the Controlling Shareholders or individuals whose election or nomination to that board or equivalent governing body was approved by the Controlling Shareholders; or

(c) any Person or two or more Persons (other than the Controlling Shareholders or any of them) acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation thereof, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Borrower, or control over the equity securities of the Borrower entitled to vote for members of the board of directors or equivalent governing body of the Borrower on a fully-diluted basis (and taking into account all such securities that such Person or group has the right to acquire pursuant to any option right) representing 35% or more of the combined voting power of such securities.

“Closing Date” means the first date all the conditions precedent in Section 4.01 are satisfied or waived by the Lender.

“Code” means the Internal Revenue Code of 1986.

“Commitment” means the obligation of the Lender to make Loans and L/C Credit Extensions hereunder in an aggregate principal amount at any one time not to exceed \$20,000,000, as such amount may be adjusted from time to time in accordance with this Agreement.

“Compliance Certificate” means a certificate substantially in the form of Exhibit C.

“Consolidated EBITDA” means, for any Subject Period, for the Borrower and its Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) the following to the extent deducted in calculating such Consolidated Net Income, without duplication: (i) Consolidated Interest Charges for such period, (ii) the provision for Federal, state, local and foreign income taxes payable by the Borrower and its Subsidiaries for such period (net of income tax credits for such period), (iii) depreciation and amortization expense, and (iv) charges incurred during such period under Financial Accounting Standard 123R which do not represent a cash item in such period or any future period; provided, however, that if there has occurred an Acquisition during the relevant period, Consolidated EBITDA shall be calculated, at the option of the Borrower on a pro forma basis in accordance with the SEC pro forma reporting rules under the Exchange Act, as if such Acquisition occurred on the first day of the applicable period; provided that once elected in respect of an Acquisition, such election shall remain in effect at all times thereafter for such Acquisition.

“Consolidated Fixed Charge Coverage Ratio” means, as of any date of determination, the ratio of (a) Consolidated EBITDA for the Subject Period then ending, less Capital Expenditures made by the Borrower and its consolidated Subsidiaries during such period, to the sum of (b) Consolidated Interest Charges for the Subject Period then ending plus scheduled principal and interest payments in respect of Indebtedness made by the Borrower and its consolidated Subsidiaries during the Subject Period plus the current portion of long term debt (other than the Obligations) as of such date.

“Consolidated Funded Indebtedness” means, as of any date of determination, for the Borrower and its Subsidiaries on a consolidated basis, excluding Indebtedness that is under applicable law or contract non-recourse (subject to a carve-out for “Non-Recourse Carveout Obligations” as defined in the Ortega Deed of Trust, in the form existing on the date hereof) to the Borrower and its Subsidiaries and is secured only by real property of the Borrower or its Subsidiaries, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including Obligations hereunder) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) Attributable Indebtedness in respect of capital leases and Synthetic Lease Obligations, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Borrower or any Subsidiary, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Borrower or a Subsidiary is a general partner or joint venturer, unless such Indebtedness is under applicable law or contract non-recourse to the Borrower or such Subsidiary, as the case may be.

“Consolidated Interest Charges” means, for any Subject Period, for the Borrower and its Subsidiaries on a consolidated basis, the sum of (a) all interest, premium payments, debt discount, fees, charges and related expenses of the Borrower and its Subsidiaries in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, and (b) the portion of rent expense of the Borrower and its Subsidiaries with respect to such period under capital leases that is treated as interest in accordance with GAAP; provided, however, that if there has occurred an Acquisition during the relevant period, and the Borrower has elected to adjust its Consolidated EBITDA on a pro forma basis (in accordance with the definition of such term) in respect of such Acquisition, Consolidated Interest Charges shall be calculated in accordance with the SEC pro forma reporting rules under the Exchange Act, as if such Acquisition occurred (and all Indebtedness acquired or arising in connection therewith was incurred) on the first day of the applicable period.

“Consolidated Liquidity Ratio” means, as of any date of determination, in respect of the Borrower and its Subsidiaries on a consolidated basis, the ratio of (a) the sum of cash plus cash equivalents plus trade accounts receivable net of doubtful or uncollectible accounts to (b) the sum of current liabilities (excluding deferred revenues) plus, without duplication, the Total Outstandings, as of such date.

“Consolidated Net Income” means, for any period, for the Borrower and its Subsidiaries on a consolidated basis, the net income of the Borrower and its Subsidiaries for that period.

“Consolidated Total Leverage Ratio” means, as of any date of determination, the ratio of (a) Consolidated Funded Indebtedness as of such date to (b) Consolidated EBITDA for the Subject Period most recently ended.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Controlled Foreign Corporation” means a Subsidiary of the Borrower which is a “controlled foreign corporation” as defined in Section 957(a) of the Code or any successor provision thereto.

“Credit Extension” means each of the following: (a) a borrowing of a Loan and (b) an L/C Credit Extension.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means (a) when used with respect to Obligations other than Letter of Credit Fees, an interest rate equal to (i) the Base Rate plus (ii) the Applicable Rate, if any, applicable to Base Rate Loans plus (iii) 2% per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, and (b) when used with respect to Letter of Credit Fees, a rate equal to the Applicable Rate plus 2% per annum.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“Dollar” and “\$” mean lawful money of the United States.

“Eligible Assignee” has the meaning specified in Section 9.07(f).

“Environmental Laws” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurocurrency liabilities” has the meaning specified in Section 3.04(e).

“Eurodollar Rate” means, for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Lender from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the “Eurodollar Rate” for such Interest Period shall be the rate per annum determined by the Lender to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by the Lender and with a term equivalent to such Interest Period would be offered by Lender’s London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

“Eurodollar Rate Loan” means a Loan that bears interest at a rate based on the Eurodollar Rate.

“Event of Default” has the meaning specified in Section 8.01.

“Exchange Act” means the Securities Exchange Act of 1934.

“Excluded Taxes” means, with respect to the Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of the Lender, in which its applicable Lending Office is located, and (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Borrower is located.

“Existing Credit Agreement” means that certain Credit Agreement dated as of April 7, 2005 between the Borrower and Comerica Bank, as amended prior to the date hereof.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Lender on such day on such transactions as determined by the Lender.

“Foreign Subsidiary” means any Subsidiary, other than one organized and existing under the laws of the United States or any state thereof.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fund” has the meaning specified in Section 9.07(f).

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, any (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital,

equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"Guarantors" means, collectively, each Subsidiary obligated to execute a Guaranty pursuant to Section 6.12.

"Guaranty" means the Guaranty made by the Guarantors in favor of the Lender, in substantially the form attached hereto as Exhibit D.

"Hazardous Materials" means any substance or material that is regulated, or referred to, as a toxic or hazardous substance, waste or material, or as a pollutant, contaminant or infectious waste, under any applicable Environmental Laws, or chemicals, biological agents, or compounds that are otherwise subject to regulation, control or remediation under applicable Environmental Laws, and includes asbestos, lead, petroleum (including crude oil or any fraction or additive thereof, natural gas, natural gas liquids, liquefied natural gas, or synthetic gas usable for fuel, or any mixture thereof), polychlorinated biphenyls, urea formaldehyde, radon gas, and radioactive matter. The term "Hazardous Materials" includes any and all "hazardous substances" as defined by or under Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. § 9601, et seq. ("CERCLA") and all "hazardous wastes" as defined by or under the Resource Conservation and Recovery Act, 42 U.S.C. § 6901, et seq. ("RCRA").

"Honor Date" has the meaning specified in Section 2.03(c)(i).

"Indebtedness" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than 60 days after the date on which such trade account payable was created);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) capital leases and Synthetic Lease Obligations;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is under applicable law or contract non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in Section 9.04(b).

“Information” has the meaning specified in Section 9.08.

“Interest Payment Date” means, (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan, the last Business Day of each March, June, September and December and the Maturity Date.

“Interest Period” means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Loan Notice; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period shall extend beyond the Maturity Date.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person and any arrangement pursuant to which the investor Guarantees Indebtedness of such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“IP Rights” has the meaning specified in Section 5.17.

“IRS” means the United States Internal Revenue Service.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuer Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the Lender and the Borrower (or any Subsidiary) or in favor the Lender and relating to any such Letter of Credit.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Borrowing.

“L/C Credit Extension” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“L/C Obligations” means, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“Lender” has the meaning specified in the introductory paragraph hereto.

“Lending Office” means the office or offices of the Lender described as such on Schedule 9.02, or such other office or offices as the Lender may from time to time notify the Borrower.

“Letter of Credit” means any standby letter of credit issued hereunder.

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the Lender.

“Letter of Credit Expiration Date” means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“Letter of Credit Fee” has the meaning specified in Section 2.03(h).

“Letter of Credit Sublimit” means an amount equal to \$2,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Commitment.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” has the meaning specified in Section 2.01.

“Loan Documents” means this Agreement, any Note, each Issuer Document, and the Guaranty.

“Loan Notice” means a notice of (a) a borrowing of a Loan, (b) a conversion of a Loan from one Type to the other, or (c) a continuation of a Eurodollar Rate Loan as the same Type, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

“Loan Parties” means, collectively, the Borrower and each Guarantor.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), on condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

“Material Subsidiary” means, at any time, any Subsidiary that meets either of the following conditions at such time: (a) such Subsidiary’s consolidated total revenues for the period of the immediately preceding fiscal year is equal to or greater than 5% of the consolidated total revenues of the Borrower and its Subsidiaries for such period, determined in accordance with GAAP, consistently applied, in each case as reflected in the most recent annual financial statements referenced in Section 5.05(a) or required to be delivered pursuant to Section 6.01(a), or (b) such Subsidiary’s total consolidated assets, as of the last day of the immediately preceding fiscal year, are equal to or greater than 5% of the consolidated total assets of the Borrower and its Subsidiaries as of such date, determined in accordance with GAAP, consistently applied; in each case as reflected in the most recent annual financial statements of the Borrower referenced in Section 5.05(a) or required to be delivered pursuant to Section 6.01(a), provided, however, that if there occurs any Acquisition, the foregoing tests (a) and (b) shall initially be undertaken, based upon pro forma financial information for such Acquired Entity, as of the fiscal quarter end immediately following such date of Acquisition, as though such quarter end date were a fiscal year end date for purposes hereof.

“Maturity Date” means April 10, 2011.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Note” means a promissory note made by the Borrower in favor of the Lender evidencing Loans made by the Lender, substantially in the form of Exhibit B.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Ortega Deed of Trust” has the meaning specified in Schedule 7.01.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“Outstanding Amount” means (i) with respect to Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.

“Participant” has the meaning specified in Section 9.07(c).

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Permitted Acquisitions” has the meaning specified in Section 7.02(f).

“Permitted Lien” has the meaning specified in Section 7.01.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“Registered Public Accounting Firm” has the meaning specified in the Securities Laws and shall be independent of the Borrower as prescribed by the Securities Laws.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived.

“Request for Credit Extension” means (a) with respect to a Borrowing, conversion or continuation of a Loan, a Loan Notice, and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

“Responsible Officer” means the chief executive officer, president, chief financial officer or treasurer of the Borrower. Any document delivered hereunder that is signed on behalf of a Loan Party by (x) two or more Responsible Officers or (y) a Responsible Officer and one other officer of the Borrower shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to the Borrower’s stockholders, partners or members (or the equivalent Person thereof).

“Sarbanes-Oxley” means the Sarbanes-Oxley Act of 2002.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

“Securities Laws” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the Public Company Accounting Oversight Board, as each of the foregoing may be amended and in effect on any applicable date hereunder.

“Solvent” means, with respect to any Person as of a particular date, that on such date (a) such Person is able to pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (b) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay as such debts and liabilities mature in their ordinary course, (c) such Person is not engaged in a business or transaction, and is not about to engage in a business or a transaction, for which such Person’s assets would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which such Person is engaged or is to engage, (d) the fair value of the assets of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person, and

(e) the aggregate fair saleable value (i.e., the amount that may be realized within a reasonable time, considered to be six months to one year, either through collection or sale at the regular market value, conceiving the latter as the amount that could be obtained for the assets in question within such period by a capable and diligent businessman from an interested buyer who is willing to purchase under ordinary selling conditions) of the assets of such Person will exceed its debts and other liabilities (including contingent, subordinated, unmatured and unliquidated debts and liabilities). For purposes of this definition, “debt” means any liability on a claim, and “claim” means (i) a right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (ii) a right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right is an equitable remedy, is reduced judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

“Subject Period” means, as of any date of determination for any Person, the period of four consecutive fiscal quarters of such Person ending on such date.

“Subordinated Debt” means unsecured indebtedness having a maturity date not earlier than six months after the Maturity Date, providing for no optional or mandatory amortization or prepayment, and containing subordination terms reasonably satisfactory to the Lender in its sole discretion.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of the Borrower.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include the Lender or any Affiliate of the Lender).

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Threshold Amount” means \$2,000,000.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“Type” means, with respect to a Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“United States” and “U.S.” mean the United States of America.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended,

supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 Accounting Terms.

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Lender shall so request, the Lender and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Lender not to be unreasonably withheld), provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) Consolidation of Variable Interest Entities. All references herein to consolidated financial statements of the Borrower and its Subsidiaries or to the determination of any amount for the Borrower and its Subsidiaries on a consolidated basis or any similar reference shall, in each case, be deemed to include each variable interest entity that the Borrower is required to consolidate pursuant to FASB Interpretation No. 46 — Consolidation of Variable Interest Entities: an interpretation of ARB No. 51 (January 2003) as if such variable interest entity were a Subsidiary as defined herein.

1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

1.06 Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

ARTICLE II. THE COMMITMENT AND CREDIT EXTENSIONS

2.01 Loans. Subject to the terms and conditions set forth herein, the Lender agrees to make loans (each such loan, a "Loan") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of the Commitment; provided, however, that after giving effect to any borrowing, the Total Outstandings shall not exceed the Commitment. Within the limits of the Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.04, and reborrow under this Section 2.01. A Loan may be a Base Rate Loan or a Eurodollar Rate Loan, as further provided herein.

2.02 Borrowings, Conversions and Continuations of Loans.

(a) Each borrowing, each conversion of Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Lender, which may be given by telephone. Each such notice must be received by the Lender not later than 3:00 p.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to a Base Rate Loans, and (ii) on the requested date of any Borrowing of Base Rate Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Lender of a written Loan Notice, appropriately completed and signed by two officers, at least one of whom shall be a Responsible Officer, and the other(s) who may be another Responsible Officer, or an assistant treasurer, or the controller of the Borrower (each such officer of Borrower, an "Authorized Signatory" and, collectively, the "Authorized Signatories"). Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall

be in a minimum principal amount of \$1,000,000. Except as provided in Section 2.03(c), each Borrowing of or conversion to Base Rate Loans shall be in a minimum principal amount of \$100,000. Each Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Borrowing, a conversion of Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of the Loans to be borrowed, converted or continued, (iv) the Type of Loans to be borrowed or to which existing Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Loan in a Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loan. If the Borrower requests a borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), the Lender shall make the proceeds of each Loan available to the Borrower either by (i) crediting the account of the Borrower on the books of the Lender with the amount of such proceeds or (ii) wire transfer of such proceeds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Lender by the Borrower; provided, however, that if, on the date of the Loan Notice given with respect to such Borrowing, there are L/C Borrowings outstanding, then the proceeds of such Borrowing, first, shall be applied to the payment in full of any such unreimbursed drawings, and second, to the Borrower as provided above.

(c) Except as otherwise provided herein, Eurodollar Rate Loans may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loans. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Lender.

(d) The Lender shall promptly notify the Borrower of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Lender shall notify the Borrower of any change in the Lender's prime rate used in determining the Base Rate promptly following the public announcement of such change.

2.03 Letters of Credit.

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, the Lender agrees (A) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrower, and to amend Letters of Credit previously issued by it, in accordance with subsection (b) below, and (B) to honor drawings under the Letters of Credit; provided that the Lender shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit if as of the date of such L/C Credit Extension, (y) the Total Outstandings would exceed the Commitment or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) The Lender shall not issue any Letter of Credit if:

(A) the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance, unless the Lender has approved such expiry date; or

(B) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless the Lender has approved such expiry date.

(iii) The Lender shall not be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the Lender from issuing such Letter of Credit, or any Law applicable to the Lender or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the Lender shall prohibit, or request that the Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the Lender with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the Lender is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the Lender any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the Lender in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the Lender;

(C) except as otherwise agreed by the Lender, such Letter of Credit is in an initial stated amount less than \$500,000;

(D) such Letter of Credit is to be denominated in a currency other than Dollars; or

(E) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder.

(iv) The Lender shall not amend any Letter of Credit if the Lender would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(v) The Lender shall be under no obligation to amend any Letter of Credit if (A) the Lender would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the Lender in the form of a Letter of Credit Application, appropriately completed and signed by two Authorized Signatories. Such Letter of Credit Application must be received by the Lender not later than 3:00 p.m., at least two Business Days (or such later date and time as the Lender may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the Lender: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the Lender may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the Lender (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the Lender may require. Additionally, the Borrower shall furnish to the Lender such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the Lender may require.

(ii) Upon the Lender's determination that the requested issuance or amendment is permitted in accordance with the terms hereof, then, subject to the terms and conditions hereof, the Lender shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the Lender's usual and customary business practices.

(iii) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the Lender will also deliver to the Borrower a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the Lender shall notify the Borrower thereof. Not later than 3:00 p.m. on the date of any payment by the Lender under a Letter of Credit (each such date, an “Honor Date”), the Borrower shall reimburse the Lender in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the Lender (any such unreimbursed amount, an “Unreimbursed Amount”), the Borrower shall be deemed to have requested a Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to such Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Commitment and the conditions set forth in Section 4.02 (other than the delivery of a Loan Notice).

(ii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the Lender an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate.

(d) Obligations Absolute. The obligation of the Borrower to reimburse the Lender for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the Lender or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the Lender under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the Lender under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or any Subsidiary.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the Lender. The Borrower shall be conclusively deemed to have waived any such claim against the Lender and its correspondents unless such notice is given as aforesaid.

(e) Role of Lender. The Borrower agrees that, in paying any drawing under a Letter of Credit, the Lender shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Lender, any of its Affiliates, any of the respective officers, directors, employees, agents or attorneys-in-fact of the Lender and its Affiliates, nor any of the respective correspondents, participants or assignees of the Lender shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(d); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the Lender, and the Lender may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the Lender's willful misconduct or gross negligence or the Lender's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the Lender may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and the Lender shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(f) Cash Collateral. Upon the request of the Lender, (i) if the Lender has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations. Sections 2.05 and 8.02(c) set forth additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03 and Sections 2.04 and 8.02(c), “Cash Collateralize” means to pledge and deposit with or deliver to the Lender, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Lender. Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Lender a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts at the Lender.

(g) Applicability of ISP. Unless otherwise expressly agreed by the Lender and the Borrower when a Letter of Credit is issued, the rules of the ISP shall apply to each Letter of Credit.

(h) Letter of Credit Fees. The Borrower shall pay to the Lender a Letter of Credit fee (the “Letter of Credit Fee”) for each Letter of Credit equal to the Applicable Rate in respect of Eurodollar Rate Loans times the daily amount available to be drawn under such Letter of Credit. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. Letter of Credit Fees shall be (A) computed on a quarterly basis in arrears and (B) due and payable on the first Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect. Notwithstanding anything to the contrary contained herein, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate.

(i) Documentary and Processing Charges Payable to Lender. The Borrower shall pay directly to the Lender for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(j) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

2.04 Prepayments. (a) The Borrower may, upon notice to the Lender, at any time or from time to time voluntarily prepay any Loan in whole or in part without premium or penalty; provided that (i) such notice must be received by the Lender not later than 8:00 a.m. (A) three Business Days prior to any date of prepayment of Eurodollar Rate Loans, and (B) on the date of prepayment of Base Rate Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof; and (iii) any prepayment of Base Rate Loans shall be in a principal amount of \$100,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of Eurodollar Rate Loans shall be accompanied by all accrued interest on the amount repaid, together with any additional amounts required pursuant to Section 3.05.

(b) If for any reason the Total Outstandings at any time exceed the Commitment then in effect, the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.04(b) unless after the prepayment in full of the Loans the Total Outstandings exceed the Commitment then in effect.

2.05 Termination or Reduction of Commitment. The Borrower may, upon notice to the Lender, terminate the Commitment, or from time to time permanently reduce the Commitment; provided that (i) any such notice shall be received by the Lender not later than 8:00 a.m., five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate minimum amount of \$1,000,000, (iii) the Borrower shall not terminate or reduce the Commitment if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Commitment, and (iv) if, after giving effect to any reduction of the Commitment, the Letter of Credit Sublimit exceeds the amount of the Commitment, such Sublimit shall be automatically reduced by the amount of such excess. All commitment fees accrued until the effective date of any termination of the Commitment shall be paid on the effective date of such termination.

2.06 Repayment of Loans. The Borrower shall repay to the Lender on the Maturity Date the aggregate principal amount of Loans outstanding on such date.

2.07 Interest.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) If any amount of principal of any Loan is not paid when due, whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any amount (other than principal of any Loan) payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, then such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iii) While any Event of Default exists, the Borrower shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iv) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable on demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.08 Fees. In addition to certain fees described in subsections (h) and (i) of Section 2.03:

(a) Commitment Fee. The Borrower shall pay to the Lender a commitment fee equal to the Applicable Rate times the actual daily amount by which the Commitment exceeds the Total Outstandings. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Maturity Date. The commitment fee shall be calculated quarterly in arrears.

(b) Other Fees. The Borrower shall pay to the Lender such further fees as separately agreed in any fee letter or other agreement pertaining hereto.

2.09 Computation of Interest and Fees. All computations of interest for Base Rate Loans when the Base Rate is determined by the Lender's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.11(a), bear interest for one day. Each determination by the Lender of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.10 Evidence of Debt. The Credit Extensions made by the Lender shall be evidenced by one or more accounts or records maintained by the Lender in the ordinary course of business. The accounts or records maintained by the Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lender to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. Upon the request of the Lender, the Borrower shall execute and deliver to the Lender a Note, which shall evidence the Lender's Loans in addition to such accounts or records. The Lender may attach schedules to the Note and endorse thereon the date, Type (if applicable), amount and maturity of Loans and payments with respect thereto.

2.11 Payments Generally.

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Lender at the applicable Lending Office in Dollars and in immediately available funds not later than 2:30 p.m. on the date specified herein. All payments received by the Lender after 2:30 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

(b) If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(c) Nothing herein shall be deemed to obligate the Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by the Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

**ARTICLE III.
TAXES, YIELD PROTECTION AND ILLEGALITY**

3.01 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Lender within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid by the Lender and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by the Lender shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Lender.

(e) Treatment of Certain Refunds. If the Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Lender, agrees to repay the amount so paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Lender in the event the Lender is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

3.02 Illegality. If the Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for the Lender or its Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of the Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by the Lender to the Borrower, any obligation of the Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Loans to Eurodollar Rate Loans shall be suspended until the Lender notifies the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from the Lender, prepay or, if applicable, convert all Eurodollar Rate Loans to Base Rate Loans, either on the last day of the Interest Period therefor, if the Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if the Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

3.03 Inability to Determine Eurodollar Rate. If the Lender determines that for any reason in connection with any request for Eurodollar Rate Loans or a conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Loans, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to the Lender of funding such Loan, the Lender will promptly so notify the Borrower. Thereafter, the obligation of the Lender to make or maintain Eurodollar Rate Loans shall be suspended until the Lender revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein.

3.04 Increased Costs; Reserves on Eurodollar Rate Loans.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, the Lender (except any reserve requirement contemplated by Section 3.04(e));

(ii) subject the Lender to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to the Lender in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by the Lender); or

(iii) impose on the Lender or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by the Lender or any Letter of Credit;

and the result of any of the foregoing shall be to increase the cost to the Lender of making or maintaining any Eurodollar Rate Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to the Lender of issuing or maintaining any Letter of Credit (or of maintaining its obligation to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by the Lender hereunder (whether of principal, interest or any other amount) then, upon request of the Lender, the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If the Lender determines that any Change in Law affecting the Lender or any Lending Office of the Lender or the Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on the Lender's capital or on the capital of the Lender's holding company, if any, as a consequence of this Agreement, the Commitment of the Lender or the Loans made by, or the Letters of Credit issued by, the Lender, to a level below that which the Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration the Lender's policies and the policies of the Lender's holding company with respect to capital adequacy), then from time to time the Borrower will pay to the Lender such additional amount or amounts as will compensate the Lender or such Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of the Lender setting forth the amount or amounts necessary to compensate the Lender or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay the Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of the Lender to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of the Lender's right to demand such compensation, provided that the Borrower shall not be required to compensate the Lender pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than nine months prior to the date that the Lender notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of the Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Loans. The Borrower shall pay to the Lender, as long as the Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by the Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least 10 days' prior notice of such additional interest from the Lender. If the Lender fails to give notice 10 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 10 days from receipt of such notice.

3.05 Compensation for Losses. Upon demand of the Lender from time to time, the Borrower shall promptly compensate the Lender for and hold the Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise) or, in the case of interest payments, other than an Interest Payment Date relating thereto; or

(b) any failure by the Borrower (for a reason other than the failure of the Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lender under this Section 3.05, the Lender shall be deemed to have funded each Eurodollar Rate Loan at the Eurodollar base rate used in determining the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 Requests for Compensation. A certificate of the Lender claiming compensation under this Article III and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, the Lender may use any reasonable averaging and attribution methods.

3.07 Survival. All of the Borrower's obligations under this Article III shall survive termination of the Commitment and repayment of all other Obligations hereunder.

ARTICLE IV. CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 Conditions of Initial Credit Extension. The obligation of the Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) The Lender's receipt of the following, each of which shall be originals or telecopies (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Lender and its legal counsel:

(i) executed counterparts of this Agreement, sufficient in number for distribution to the Lender and the Borrower;

(ii) if requested by the Lender, a Note executed by the Borrower in favor of the Lender;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of the Borrower as the Lender may reasonably require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which the Borrower is a party;

(iv) such documents and certifications as the Lender may reasonably require to evidence that the Borrower is duly organized or formed, and is validly existing, in good standing and qualified to engage in business in the States of California and Delaware;

(v) a certificate of a Responsible Officer of the Borrower either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against the Borrower of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vi) a certificate signed by a Responsible Officer of the Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, and (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect;

(vii) a duly completed Compliance Certificate as of the last day of the fiscal quarter of the Borrower ended on October 31, 2007, signed by a Responsible Officer of the Borrower;

(viii) evidence satisfactory to the Lender that the Existing Credit Agreement has been terminated or cancelled, with all amounts owing thereunder paid, all letter of credit thereunder cancelled and returned, and all Liens, if any, securing such facility terminated and released; and

(ix) such other assurances, certificates, documents, or consents as the Lender reasonably may require.

(b) Any fees required to be paid on or before the Closing Date shall have been paid.

(c) The Borrower shall have paid all fees, charges and disbursements of counsel to the Lender to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Lender).

4.02 Conditions to all Credit Extensions. The obligation of the Lender to honor any Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Loan Notice requesting only a conversion of Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE V. REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Lender that:

5.01 Existence, Qualification and Power; Compliance with Laws. Each Loan Party and each Material Subsidiary thereof (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all applicable Laws; except in each case referred to in clause (b)(i), (c) or (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.02 Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, or require any payment to be made under (i) any material Contractual Obligation to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law. Each Loan Party and each Material Subsidiary thereof is in compliance with all material Contractual Obligations referred to in clause (b)(i), except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

5.03 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document.

5.04 Binding Effect. This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject, as to the enforcement of remedies, to applicable bankruptcy, insolvency, reorganization, and similar laws generally affecting creditors' rights and to general principles of equity.

5.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other material liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including material liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated balance sheet of the Borrower and its Subsidiaries dated October 31, 2007, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments. Schedule 5.05 sets forth all material indebtedness and other material liabilities, direct or contingent, of the Borrower and its consolidated Subsidiaries as of the date of such financial statements not set forth on such financial statements (including footnotes thereto), including material liabilities for taxes, material commitments and Indebtedness.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

5.06 Litigation. There are no actions, suits, proceedings, claims or disputes pending or, to the actual knowledge of any Responsible Officer of the Borrower (on the basis of Borrower's ordinary course monitoring of such matters, consistent with its obligations under the Securities Laws), threatened in writing (other than threats as to which there exists no reasonable likelihood of further action or reasonable likelihood of a meritorious claim), at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 No Default. Neither the Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Ownership of Property; Liens. Each of the Borrower and each Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all material real property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of the Borrower and its Subsidiaries is subject to no Liens, other than Liens permitted by Section 7.01.

5.09 Environmental Compliance. The Borrower and its Subsidiaries are in compliance with all applicable Environmental Laws and do not have knowledge of any Environmental Liability, except to the extent that such liability could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.10 Insurance. The properties of the Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Borrower or the applicable Subsidiary operates.

5.11 Taxes. The Borrower and its Subsidiaries have filed all U.S. Federal, U.S. state and other material tax returns and reports required to be filed, and have paid all U.S. Federal, U.S. state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Borrower or any Subsidiary that would, if made, have a Material Adverse Effect.

5.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination or (in the case of any standardized prototype plans) opinion letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 Subsidiaries. As of the Closing Date, (i) the Borrower has no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13, (ii) all of the outstanding Equity Interests in such Subsidiaries have been validly issued, are fully paid and nonassessable and except as noted in Part (a) of Schedule 5.13 are wholly-owned, directly or indirectly, by the Borrower, free and clear of all Liens, (iii) all Material Subsidiaries existing as of the Closing Date are disclosed in Part (b) of Schedule 5.13, (iv) the Borrower has no equity investments in any other corporation or entity other than those specifically disclosed in Part (c) of Schedule 5.13, and (v) all of the outstanding Equity Interests in the Borrower have been validly issued, and are fully paid and nonassessable. QAD Ortega LLC is engaged solely in the business of owning and operating real property used or usable by the Borrower and its Subsidiaries.

5.14 Margin Regulations; Investment Company Act.

(a) The Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. Following the application of the proceeds of each Borrowing or drawing under each Letter of Credit, not more than 25% of the value of the assets (either of the Borrower only or of the Borrower and its Subsidiaries on a consolidated basis) subject to the provisions of Section 7.01 or Section 7.05 or subject to any restriction contained in any agreement or instrument between the Borrower and the Lender or any Affiliate of the Lender relating to Indebtedness and within the scope of Section 8.01(e) will be margin stock.

(b) None of the Borrower, any Person Controlling the Borrower, or any Subsidiary is or is required to be registered as an “investment company” under the Investment Company Act of 1940.

5.15 Disclosure. The Borrower has disclosed to the Lender all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the totality of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws. Each of the Borrower and each Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property; Licenses, Etc. The Borrower and its Subsidiaries own, or possess the right to use, all of the material trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, “IP Rights”) that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person, in each case, except to the extent that such absence of ownership or possession, or such conflict could not reasonably be expected to have a Material Adverse Effect.

5.18 Solvency. Each Loan Party is Solvent.

ARTICLE VI.
AFFIRMATIVE COVENANTS

So long as the Commitment shall be in effect, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02 and 6.03) cause each Subsidiary to:

6.01 Financial Statements. Deliver to the Lender, in form and detail satisfactory to the Lender:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, commencing with the fiscal year ended January 31, 2008, a consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated and consolidating statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited (in the case of the consolidated statements) and accompanied by a report and opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Lender, which report and opinion shall be prepared in accordance with generally accepted auditing standards and applicable Securities Laws and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit; and

(b) as soon as available, but in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower (commencing with the fiscal quarter ending April 30, 2008), a consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated and consolidating statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail, such consolidated statements to be certified by an Authorized Signatory of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes and such consolidating statements to be certified by a Responsible Officer of the Borrower to the effect that such statements are fairly stated in all material respects when considered in relation to the consolidated financial statements of the Borrower and its Subsidiaries.

As to any information contained in materials furnished pursuant to Section 6.02(d), the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in clauses (a) and (b) above at the times specified therein.

6.02 Certificates; Other Information. Deliver to the Lender, in form and detail satisfactory to the Lender:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b) (commencing with the delivery of the financial statements for the fiscal quarter ending April 30, 2008), a duly completed Compliance Certificate signed by a Responsible Officer of the Borrower;

(b) promptly after request by the Lender, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the Borrower by independent accountants in connection with the accounts or books of the Borrower or any Subsidiary, or any audit of any of them;

(c) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Lender pursuant hereto;

(d) promptly after the furnishing thereof, copies of any statement or report furnished to any holder of debt securities of any Loan Party or any Subsidiary thereof pursuant to the terms of any indenture, loan or credit or similar agreement and not otherwise required to be furnished to the Lender pursuant to Section 6.01 or any other clause of this Section 6.02;

(e) promptly after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each notice or other correspondence received from the SEC (or comparable agency in any applicable non-U.S. jurisdiction) concerning any investigation or possible investigation or other inquiry by such agency regarding financial or other operational results of any Loan Party or any Subsidiary thereof; and

(f) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a) or (b) or Section 6.02(c) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on Schedule 9.02; or (ii) on which such documents are posted on the Borrower's behalf on an Internet or intranet website, if any, to which the Lender has access (whether a commercial, third-party website); provided that the Borrower shall notify the Lender (by telecopier or electronic mail) of the posting of any such documents and provide to the Lender by electronic mail electronic versions (i.e., soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificates required by Section 6.02(a) to the Lender. Except for such Compliance Certificates, the Lender shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and the Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

6.03 Notices. Promptly notify the Lender:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a material Contractual Obligation of the Borrower or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between the Borrower or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting the Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws;

(c) of the occurrence of any ERISA Event; and

(d) of any material change in accounting policies or financial reporting practices by the Borrower or any Subsidiary.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action, if any, the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.03(a) shall describe with reasonable particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 Payment of Obligations. Pay and discharge as the same shall become due and payable, all its material obligations and liabilities, including (a) all material tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Subsidiary; (b) all lawful material claims which, if unpaid, would by law become a Lien upon its property (other than a Permitted Lien); and (c) all material Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness.

6.05 Preservation of Existence, Etc. (a) Preserve, renew and maintain in full force and effect its legal existence (i) and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by Section 7.04 or 7.05, and, (ii) good standing in each jurisdiction in which its ownership, lease or operation of properties or the conduct of its business requires it to be so qualified, except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect; (b) take all commercially reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) take all commercially reasonable actions to preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.06 Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (b) use the standard of care typical in the industry in the operation and maintenance of its facilities.

6.07 Maintenance of Insurance. Maintain with financially sound and reputable insurance companies not Affiliates of the Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

6.08 Compliance with Laws. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records. (a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Subsidiary, as the case may be; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Borrower or such Subsidiary, as the case may be.

6.10 Inspection Rights. Permit representatives and independent contractors of the Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; provided, however, that (i) when an Event of Default exists the Lender (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours and without advance notice, and (ii) the Lender shall comply with Section 9.08 in connection with any such visit and inspection.

6.11 Use of Proceeds. Use the proceeds of the Credit Extensions for working capital, capital expenditures and other general corporate purposes not in contravention of any Loan Document and not for any illegal use.

6.12 Additional Guarantors. Notify the Lender at the time that any Person (other than QAD Ortega Hill, LLC, provided QAD Ortega Hill, LLC does not acquire any significant assets other than real property used or usable by the Borrower and its Subsidiaries) becomes a Material Subsidiary, and promptly thereafter (and in any event within 30 days after (x) the date the Borrower's financial statements are required to be delivered under Section 6.01(a) and (y) in the case of any Material Subsidiary resulting from an Acquisition, the date the Borrower's financial statements are first required to be delivered under Section 6.01(a) or 6.01(b) after the date of such Acquisition), unless the Borrower certifies that such Subsidiary is a Controlled Foreign Corporation, cause such Person to (a) become a Guarantor by executing and delivering to the Lender a counterpart of the Guaranty or such other document as the Lender shall deem appropriate for such purpose, and (b) deliver to the Lender documents of the types referred to in clauses (iii) and (iv) of Section 4.01(a) (substituting for this purpose the term "Guarantor" for "Borrower"), all in form, content and scope reasonably satisfactory to the Lender.

ARTICLE VII. NEGATIVE COVENANTS

So long as the Commitment shall be in effect, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

7.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following (each, a "Permitted Lien"):

- (a) Liens pursuant to any Loan Document;
- (b) Liens existing on the date hereof that are (x) listed on Schedule 7.01, (y) in favor of the Lender, or (z) encumber only assets of Foreign Subsidiaries and do not secure, individually or in the aggregate Indebtedness exceeding the Threshold Amount; together with any renewals or extensions of any of the foregoing, provided that (i) the property covered thereby is not changed, (ii) the amount secured or benefited thereby is not increased, (iii) the direct or any contingent obligor with respect thereto is not changed, and (iv) any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.03(b);
- (c) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;
- (d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person;

(e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(f) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(g) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which, in the aggregate, are not substantial in amount, and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;

(h) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.01(h);

(i) Liens securing Indebtedness permitted under Section 7.03(e); provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition; and

(j) banker's liens and similar Liens (including rights of set off) in respect of bank deposits and financial instruments, arising in connection with the Borrower's or any Subsidiary's deposit, cash management or securities account relationships maintained with any bank or financial institution, and not securing Indebtedness.

7.02 Investments. Make any Investments, except:

(a) Investments held by the Borrower or any Subsidiary (i) in the form of cash equivalents, or short-term marketable securities, or (ii) as set forth on Schedule 7.02 hereto;

(b) advances to officers, directors and employees of the Borrower and Subsidiaries for travel, entertainment, relocation and analogous ordinary business purposes;

(c) Investments of the Borrower or any Subsidiary in any direct or indirect wholly-owned Subsidiary and Investments of any direct or indirect wholly-owned Subsidiary in the Borrower or in another direct or indirect wholly-owned Subsidiary, other than for purposes of undertaking Acquisitions;

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) Guarantees permitted by Section 7.03;

(f) Acquisitions by the Borrower or any of its direct or indirect wholly-owned Subsidiaries, provided that (i) the total consideration paid or agreed to be paid by the Borrower and its Subsidiaries in connection with any such Acquisition, other than consideration consisting of common stock of the Borrower (“total non-equity consideration”), including for this purpose any debt (contingent or otherwise) assumed or acquired directly in connection with any such Acquisition (or series of related transactions constituting, in the reasonable opinion of the Lender, an Acquisition) and including any payments in connection therewith that are contingent upon future performance or revenues and regardless of whether the entire amount of such cash consideration is actually paid at the time of any such Acquisition, shall not (x) exceed \$5,000,000 for any such Acquisition or (y) together with the amount of total non-equity consideration in respect of all other Acquisitions consummated during any fiscal year, exceed \$10,000,000; (ii) the Acquired Entity related to any such Acquisition is not engaged in any material lines of business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the date such Acquisition is consummated and businesses incidental thereto (together, “Non-Complying Businesses”), provided that the Borrower and its Subsidiaries may acquire Acquired Entities having Non-Complying Businesses that are not their principal line of business so long as such Non-Complying Businesses are disposed of no later than 12 months after such date of Acquisition; (iii) the Borrower shall cause all Acquired Entities to comply with Section 6.12, as applicable; (iv) no Default would result from the consummation of such Acquisition; (v) prior to the commencement of any such Acquisition, or attempted Acquisition, the board of directors or other governing body of the Person being acquired shall have approved the terms of the Acquisition; and (vi) the Borrower has provided to the Lender such financial and other information regarding the Person who is being so acquired, including historical financial statements and a description of such Person, as the Lender shall reasonably request (such acquisitions, “Permitted Acquisitions”);

(g) joint venture Investments and other Investments (not comprising Acquisitions) by the Borrower or any direct or indirect Subsidiary not exceeding \$2,000,000 in the aggregate for all such Persons together in any fiscal year of the Borrower; and

(h) other Investments (other than Investments comprising Acquisitions) not exceeding \$2,000,000 in the aggregate for all such Investments together in any fiscal year of the Borrower.

7.03 Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

- (a) Indebtedness under the Loan Documents;
- (b) Indebtedness outstanding on the date hereof and listed on Schedule 7.03 and any refinancings, refundings, renewals or extensions thereof; provided that the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder;
- (c) Guarantees of the Borrower or any Guarantor in respect of Indebtedness otherwise permitted hereunder of the Borrower or any other Guarantor;
- (d) obligations (contingent or otherwise) of the Borrower or any Subsidiary existing or arising under any Swap Contract, provided that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person, and not for purposes of speculation or taking a “market view;” and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party;
- (e) Indebtedness in respect of capital leases, Synthetic Lease Obligations and purchase money obligations for fixed or capital assets within the limitations set forth in Section 7.01(i); provided, however, that the aggregate amount of all such Indebtedness at any one time outstanding shall not exceed \$2,000,000;
- (f) unsecured Indebtedness owing by the Borrower or any Subsidiary in favor of the Borrower or any wholly-owned Subsidiary, incurred in the ordinary course of business;
- (g) Indebtedness constituting trade accounts payable incurred by the Borrower or its Subsidiaries in the ordinary course of business;
- (h) Indebtedness constituting Subordinated Debt; and
- (i) other unsecured Indebtedness in an aggregate principal amount not exceeding at any one time outstanding \$2,000,000.

7.04 Fundamental Changes. Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Subsidiary may merge with (i) the Borrower, provided that the Borrower shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries, provided that when any Guarantor is merging with another Subsidiary, the Guarantor shall be the continuing or surviving Person;

(b) any Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Borrower or to another Subsidiary; provided that if the transferor in such a transaction is a Guarantor, then the transferee must either be the Borrower or a Guarantor; and

(c) in order to consummate a Permitted Acquisition, the Borrower and any Guarantor may merge with any Person, provided that the Borrower and any such Guarantor shall be the continuing or surviving Person in connection therewith.

7.05 Dispositions. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property or (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property;

(d) Dispositions of property by any Subsidiary to the Borrower or to a wholly-owned Subsidiary; provided that if the transferor of such property is a Guarantor, the transferee thereof must either be the Borrower or a Guarantor;

(e) Dispositions permitted by Section 7.04;

(f) licenses of IP Rights in the ordinary course of business; and

(g) Dispositions by the Borrower and its Subsidiaries not otherwise permitted under this Section 7.05; provided that (i) at the time of such Disposition, no Default shall exist or would result from such Disposition and (ii) the aggregate book value of all property Disposed of in reliance on this clause (h) in any fiscal year shall not exceed \$2,000,000;

provided, however, that any Disposition pursuant to clauses (a) through (g) shall be for fair market value.

7.06 Restricted Payments. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that, so long as no Event of Default shall have occurred and be continuing at the time of any action described below or would result therefrom:

(a) each Subsidiary may make Restricted Payments to the Borrower, the Guarantors and any other Person that owns an Equity Interest in such Subsidiary, ratably according to their respective holdings of the type of Equity Interest in respect of which such Restricted Payment is being made;

(b) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(c) the Borrower and each Subsidiary may purchase, redeem or otherwise acquire Equity Interests issued by it with the proceeds received from the substantially concurrent issue of new shares of its common stock or other common Equity Interests; and

(d) the Borrower may declare or pay cash dividends to its stockholders pursuant to plans approved by the Borrower's board of directors in an amount not to exceed 5 cents (\$0.05) per share per fiscal quarter; and the Borrower may repurchase its equity stock in an aggregate amount not exceeding, for any Subject Period (or portion thereof, commencing from the Closing Date), \$30,000,000.

7.07 Change in Nature of Business. Engage in any material line of business substantially different from those lines of business conducted by the Borrower and its Material Subsidiaries on the date hereof or any business substantially related or incidental thereto.

7.08 Transactions with Affiliates. Enter into any transaction of any kind with any Affiliate of the Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Borrower or such Subsidiary as would be obtainable by the Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, provided that the foregoing restriction shall not apply to transactions between or among the Borrower and any Guarantor or between and among any Guarantors.

7.09 Burdensome Agreements. Enter into any Contractual Obligation (other than this Agreement, any other Loan Document or any Contractual Obligation in favor of the Lender or any of its Related Parties) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments to the Borrower or any Guarantor or to otherwise transfer property to the Borrower or any Guarantor, (ii) of any Subsidiary to Guarantee the Indebtedness of the Borrower or (iii) of the Borrower or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person; provided, however, that this clause (iii) shall not prohibit any negative pledge (x) incurred or provided in favor of any holder of Indebtedness permitted under Section 7.03(e) solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness, or (y) incurred or provided prior to the Closing Date in favor of any holder of Indebtedness permitted under Section 7.03(b); or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

7.10 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

7.11 Financial Covenants.

(a) Consolidated Total Leverage Ratio. Permit the Consolidated Total Leverage Ratio as of the last day of any fiscal quarter of the Borrower (commencing with the fiscal quarter ended January 31, 2008) to be greater than 1.50:1.00.

(b) Consolidated Fixed Charge Coverage Ratio. Permit the Consolidated Fixed Charge Coverage Ratio as of the last day of any fiscal quarter of the Borrower (commencing with the fiscal quarter ended January 31, 2008) to be less than 2.00:1.00.

(c) Consolidated Liquidity Ratio. Permit the Consolidated Liquidity Ratio at any time (commencing with the fiscal quarter ended January 31, 2008) to be less than 1.30:1.00.

(d) Consolidated EBITDA. Permit as of the last day of any fiscal quarter of the Borrower (commencing with the fiscal quarter ended January 31, 2008) Consolidated EBITDA for the Subject Period then ending to be less than \$10,000,000.

**ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES**

8.01 Events of Default. Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or (ii) within five days after the same becomes due, any interest on any Loan or on any L/C Obligation, or any fee due hereunder, or (iii) within five days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. The Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 6.01, 6.02(a) and (b), 6.03(a), 6.05 (solely as to legal existence of a Loan Party), 6.10, 6.11 or 6.12 or Article VII; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) The Borrower or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount and such failure continues beyond any cure or grace period provided under the applicable documents governing such Contractual Obligations (other than cure or grace periods agreed in connection with or in anticipation of any such failure), or (B) with respect to Indebtedness or a Guarantee having an aggregate principal amount (including undrawn, committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; provided no Event of Default shall exist under this subsection if relating solely to one or more Subsidiaries other than Guarantors or Material Subsidiaries unless such event or circumstance would have, or reasonably be expected to have, singly or in the aggregate, a Material Adverse Effect; or

(g) Inability to Pay Debts; Attachment. (i) The Borrower or any Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 30 days after its issue or levy; provided no Event of Default shall exist under this subsection if relating solely to one or more Subsidiaries other than Guarantors or Material Subsidiaries unless such event or circumstance would have, or reasonably be expected to have, singly or in the aggregate, a Material Adverse Effect; or

(h) Judgments. There is entered against the Borrower or any Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 20 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; provided no Event of Default shall exist under this subsection if relating solely to one or more Subsidiaries other than Guarantors or Material Subsidiaries unless such event or circumstance would have, or reasonably be expected to have, singly or in the aggregate, a Material Adverse Effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents. Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any other Person contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(k) Change of Control. There occurs any Change of Control with respect to the Borrower.

8.02 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Lender may take any or all of the following actions:

- (a) declare the Commitment to be terminated, whereupon the Commitment shall be terminated;
- (b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;
- (c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and
- (d) exercise all rights and remedies available to it under the Loan Documents or applicable law;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the Commitment shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Lender.

8.03 Application of Funds. After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by the Lender in such order as it elects in its sole discretion.

ARTICLE IX. MISCELLANEOUS

9.01 Amendments; Etc. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Lender and the Borrower or the applicable Loan Party, as the case may be, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

9.02 Notices and Other Communications; Facsimile Copies.

(a) General. Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the address, facsimile number or (subject to subsection (c) below) electronic mail address specified for notices to the applicable party on Schedule 9.02; or to such other address, facsimile number or electronic mail address as shall be designated by such party in a notice to the other party. All notices and other communications expressly permitted hereunder to be given by telephone shall be made to the telephone number specified for notices to the applicable party on Schedule 9.02, or to such other telephone number as shall be designated by such party in a notice to the other party. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (B) if delivered by mail, four Business Days after deposit in the mails, postage prepaid; (C) if delivered by facsimile, when sent and receipt has been confirmed by telephone; and (D) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (c) below), when delivered; provided, however, that notices and other communications to the Lender pursuant to Article II shall not be effective until actually received by the Lender. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(b) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on all Loan Parties and the Lender. The Lender may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(c) Limited Use of Electronic Mail. Electronic mail and Internet and intranet websites may be used only to distribute routine communications, such as financial statements and other information as provided in Section 6.02, and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) Reliance by Lender. The Lender shall be entitled to rely and act upon any notices (including telephonic Loan Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify the Lender, its Affiliates, and their respective officers, directors, employees, agents and attorneys-in-fact from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower. All telephonic notices to and other communications with the Lender may be recorded by the Lender, and the Borrower hereby consents to such recording.

9.03 No Waiver; Cumulative Remedies. No failure by the Lender to exercise, and no delay by the Lender in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out of pocket expenses incurred by the Lender and its Affiliates (including the reasonable fees, charges and disbursements of counsel for the Lender), in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out of pocket expenses incurred by the Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out of pocket expenses incurred by the Lender (including the fees, charges and disbursements of any counsel for the Lender), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such out of pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Lender and each Related Party of Lender (each such Person being called an “Indemnatee”) against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnatee), incurred by any Indemnatee or asserted against any Indemnatee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or, in the case of the Lender and its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrower or any other Loan Party, and regardless of whether any Indemnatee is a party thereto; provided that such indemnity shall not, as to any Indemnatee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnatee or (y) result from a claim brought by the Borrower or any other Loan Party against an Indemnatee for breach in bad faith of such Indemnatee’s obligations hereunder or under any other Loan Document, if the Borrower or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(d) Payments. All amounts due under this Section shall be payable not later than ten Business Days after demand therefor.

(e) Survival. The agreements in this Section shall survive the termination of the Commitment and the repayment, satisfaction or discharge of all the other Obligations.

9.05 [Reserved]

9.06 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Lender, or the Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then, to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred.

9.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Lender and the Lender may not assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (c) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (e) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (c) of this Section and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Subject to subsection (f) of this Section, the Lender may at any time, with the written consent of the Borrower in its sole discretion (provided that such consent shall not be required if there exists at such time an Event of Default), assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of the Commitment, the Loans and L/C Obligations at the time owing to it) pursuant to documentation acceptable to the Lender and the assignee, it being understood and agreed that with respect to any Letters of Credit outstanding at the time of any such assignment, the Lender may sell to the assignee a ratable participation in such Letters of Credit. From and after the effective date specified in such documentation, such Eligible Assignee shall be a party to this Agreement and, to the extent of the interest assigned by the Lender, have the rights and obligations of the Lender under this Agreement, and the Lender shall, to the extent of the interest so assigned, be released from its obligations under this Agreement (and, in the case of an assignment of all of the Lender's rights and obligations under this Agreement, shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, 9.04 and 9.05 with respect to facts and circumstances occurring prior to the effective date of such assignment, and shall continue to have all of the rights provided hereunder to the Lender in its capacity as issuer of any Letters of Credit outstanding at the time of such assignment). Upon request, the Borrower (at its expense) shall execute and deliver new or replacement Notes to the Lender and the assignee, and shall execute and deliver any other documents reasonably necessary or appropriate to give effect to such assignment and to provide for the administration of this Agreement after giving effect thereto.

(c) Subject to subsection (f) of this Section, the Lender may at any time, without the consent of, or notice to, the Borrower, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of the Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the outstanding Letters of Credit and/or the Loans and/or the reimbursement obligations in respect of Letters of Credit); provided that (i) the Lender's obligations under this Agreement shall remain unchanged, (ii) the Lender shall remain solely responsible to the Borrower for the performance of such obligations and (iii) the Borrower shall continue to deal solely and directly with the Lender in connection with the Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which the Lender sells such a participation shall provide that the Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that the Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification that would (A) postpone any date upon which any payment of money is scheduled to be made to such Participant, or (B) reduce the principal, interest, fees or other amounts payable to such Participant. Subject to subsection (d) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were the Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.09 as though it were the Lender.

(d) A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to provide to the Lender such tax forms prescribed by the IRS as are necessary or desirable to establish an exemption from, or reduction of, U.S. withholding tax.

(e) The Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under the Note, if any) to secure obligations of the Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release the Lender from any of its obligations hereunder or substitute any such pledgee or assignee for the Lender as a party hereto.

(f) Notwithstanding the foregoing, the Lender shall at all times retain Loans and/or a Commitment, not subject to any assignment or participation, in an amount not less than 50.1% of the outstanding Loans and/or Commitment.

(g) As used herein, the following terms have the following meanings:

"Eligible Assignee" means (a) an Affiliate of the Lender; (b) an Approved Fund; and (c) any other Person (other than a natural person) approved by the Borrower in its sole discretion; provided that no such approval shall be required if an Event of Default has occurred and is continuing.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Approved Fund" means any Fund that is administered or managed by (a) the Lender or (b) an Affiliate of the Lender, and as to which the Lender or such Affiliate (as the case may be) does not intend to transfer or cease such administration or management relationship during the term of this Agreement.

9.08 Treatment of Certain Information; Confidentiality. The Lender agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent

required by applicable laws or regulations or by any subpoena or similar legal process (provided that the Lender shall exercise commercially reasonable efforts, to the extent practicable and not contrary to any request or order of any Governmental Authority or to applicable Law, to provide prompt prior written notice thereof to the Borrower to enable the Borrower to seek a protective order or otherwise prevent or condition such disclosure), (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Lender or any of its Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Lender on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

The Lender acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

9.09 Right of Setoff. If an Event of Default shall have occurred and be continuing, the Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by the Lender or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to the Lender, irrespective of whether or not the Lender shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch or office of the Lender different from the branch or office holding such deposit or obligated on such indebtedness. The rights of the Lender and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that the Lender or its respective Affiliates may have. The Lender agrees to notify the Borrower promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

9.10 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the “Maximum Rate”). If the Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Lender exceeds the Maximum Rate, the Lender may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

9.11 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Lender and when the Lender shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

9.12 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Lender, regardless of any investigation made by the Lender or on its behalf and notwithstanding that the Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

9.13 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

9.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN, NEW YORK CITY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

9.15 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

9.16 USA PATRIOT Act Notice. The Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the Act.

9.17 Time of the Essence. Time is of the essence of the Loan Documents.

9.18 ENTIRE AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Remainder of page intentionally left blank]

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

QAD INC.

By: /s/ DANIEL LENDER

Name: Daniel Lender

Title: Chief Financial Officer

By: /s/ JOHN NEALE

Name: John Neale

Title: Vice President & Treasurer

BANK OF AMERICA, N.A.

By: /s/ KEVIN MCMAHON

Name: Kevin McMahon

Title: Senior Vice President

SUPPLEMENT TO INTERIM FINANCIAL STATEMENTS

[None]

Schedule 5.05

SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

Part (a): Subsidiaries.

Name of Subsidiary	Percentage Owned, Directly or Indirectly, by Borrower	Country/Jurisdiction of Organization
QAD Australia Pty. Ltd.	100%	Australia
QAD Europe NV/SA	100%	Belgium
QAD Brasil Ltda.	100%	Brazil
QAD Bermuda Ltd.	100%	Bermuda
QAD Canada ULC	100%	Canada
QAD China Ltd.	100%	China
QAD Europe s.r.o.	100%	Czech Republic
QAD Europe SAS	100%	France
QAD Europe GmbH	100%	Germany
QAD Asia Limited	100%	Hong Kong
QAD India Private Limited	100%	India
Columbus Software Systems Limited	100%	Ireland
Precision Software Limited	100%	Ireland
QAD Ireland Limited	100%	Ireland
QAD Italy S.r.l.	100%	Italy
QAD Japan k.k.	100%	Japan
QAD Korea Limited	100%	Korea
QAD Mexicana, S.A. de C.V.	100%	Mexico
QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V.	100%	Mexico
QAD EMEA Holdings B.V.	100%	Netherlands
QAD Europe B.V.	100%	Netherlands
QAD Holland Holdings B.V.	100%	Netherlands
QAD Netherlands B.V.	100%	Netherlands
QAD NZ Limited	100%	New Zealand
QAD Polska Sp. zo.o.	100%	Poland
QAD Lusitana Lda.	100%	Portugal
QAD Singapore Private Limited	100%	Singapore
QAD Software South Africa (Pty) Ltd.	100%	South Africa
QAD Europe S.L.	100%	Spain
QAD Europe A.G.	100%	Switzerland
QAD I&I Company Limited	100%	Thailand
QAD Bilgisayar Yazilim Ltd. Sirketi	100%	Turkey
Bisgen Ltd.	100%	United Kingdom
Precision Distribution Systems Limited	100%	United Kingdom
Precision Solutions Limited	100%	United Kingdom
QAD EMEA Limited	100%	United Kingdom

Schedule 5.13

Name of Subsidiary	Percentage Owned, Directly or Indirectly, by Borrower	Country/Jurisdiction of Organization
QAD Europe Limited	100%	United Kingdom
QAD Holding Limited	100%	United Kingdom
QAD Ltd.	100%	United Kingdom
QAD United Kingdom Ltd.	100%	United Kingdom
Enterprise Engines, Inc.	100%	California
FBO Systems, Inc.	100%	Georgia
QAD Brazil Inc.	100%	Delaware
QAD Holdings Inc.	100%	Delaware
QAD Japan Inc.	100%	Delaware
QAD Ortega Hill, LLC	100%	Delaware

Part (b): Material Subsidiaries.

Name of Subsidiary	Percentage Owned, Directly or Indirectly, by Borrower	Country/Jurisdiction of Organization
QAD Netherlands B.V.	100%	Netherlands
QAD Europe Limited	100%	United Kingdom
QAD Ireland Limited	100%	Ireland
QAD Australia Pty. Ltd.	100%	Australia
QAD Europe B.V.	100%	Netherlands
QAD EMEA Limited	100%	United Kingdom
QAD Ortega Hill, LLC	100%	Delaware

Part (c): Other Equity Investments of Borrower.

None

Schedule 5.13

EXISTING LIENS

Deed of Trust dated July 28, 2004 among QAD Ortega Hill, LLC, as Trustor, Mid-State Bank & Trust (now Rabobank, N.A.), as Beneficiary, and MSB Properties, Inc., as Trustee (the "Ortega Deed of Trust"), encumbering the real property commonly known as 211 Ortega Hill Road, Summerland, CA 93067, as more particularly described in Exhibit "One" thereto, owned by QAD Ortega Hill, LLC.

Schedule 7.01

SCHEDULE 7.02

EXISTING INVESTMENTS

Money Market Funds as of 03-31-08

Principal

Monarch Funds – Cash Institutional Shares	\$ 640,423.17
Western Asset Institutional Money Market Fund Class A	\$ 697,321.06
Citi Institutional Liquid Reserves Class A	\$ 21,069,236.05
Bank of America Global Liquidity U.S. Dollar Fund	\$ 6,028,407.29
Bank of America Global Liquidity Euro Fund	€ 975,000.00

Employee Loans principal amount as of 3-31-08 — \$288,000

Schedule 7.02

SCHEDULE 7.03**EXISTING INDEBTEDNESS**

<u>Description of Indebtedness</u>	<u>Outstanding Amount as of 03/31/08</u>
Document: Business Loan Agreement dated July 28, 2004 between Mid-State Bank & Trust (now Rabobank, N.A.) and QAD Ortega Hill, LLC Loan Number: 9417427988 Principal: \$18,000,000 Maturity: 07/28/2014	\$17,201,799.56
Document: Lease Agreement dated October 13, 2003 between BSL Leasing Company Limited, as Lessor, and QAD I&I Co., LTD, as Lessee (Agreement No. LE03/576) Leased Property: New passenger car (Jaguar XJ63.0 Executive) Payments: 60 (monthly basis) Amount of Each Payment: 93,850.00 Thai Baht Expiration Date: 10/13/2008	681,895.65 Thai Baht

Schedule 7.03

NOTICE ADDRESSES AND LENDING OFFICE

QAD INC.:

100 Innovation Place
Santa Barbara, CA 93108
Attention: John Curl
Telephone: (805) 566-6118
Facsimile: (805) 565-4202
Electronic Mail: ujc@qad.com
Website Address: www.qad.com

LENDER

Lending Office for Loans, payments with respect thereto and payments of fees other than Letter of Credit fees:

BANK OF AMERICA, N.A.

2001 Clayton Rd. 2nd Floor
Mail Code: CA4-702-02-25
Concord, CA 94520
Attn: Adam Stoner
Telephone: (925) 675-8825
Facsimile: (888) 206-6220
Electronic Mail: adam.j.stoner@bankofamerica.com
Account No. 003750836479
Ref: QAD, Inc.
ABA# 026009593

Lending Office for Letters of Credit and payments with respect thereto, including Letter of Credit fees:

BANK OF AMERICA, N.A.
Trade Operations-Los Angeles #22621
333 S. Beaudry Avenue, 19th Floor
Mail Code: CA9-703-19-23
Los Angeles, CA 90017-1466

Notices (other than Requests for Credit Extensions):

BANK OF AMERICA, N.A.
315 Montgomery Street, 6th Floor
Mail Code: CA5-704-06-37
San Francisco, CA 94104
Attn: Kevin M. McMahon
Telephone: (415) 622-8088
Facsimile: (415) 622-4057
Electronic Mail: kevin.mcmahon@bankofamerica.com

Schedule 9.02

FORM OF LOAN NOTICE

Date: _____,

To: Bank of America, N.A.

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of April 10, 2008 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), between QAD INC., a Delaware corporation, and Bank of America, N.A..

The undersigned hereby requests (select one):

- ☐ A Loan ☐ A Conversion or Continuation of a Loan

1. On _____ (a Business Day).
2. In the amount of \$ _____.
3. Comprised of _____
[Type of Loan requested]
4. For a Eurodollar Rate Loan: with an Interest Period of _____ months.

[The borrowing requested herein complies with the proviso to the first sentence of Section 2.01 of the Agreement.]

QAD INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

FORM OF NOTE

\$20,000,000

April 10, 2008

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to the order of Bank of America, N.A. or registered assigns (the "Lender"), on the Maturity Date (as defined in the Credit Agreement referred to below) the principal amount of Twenty Million Dollars (\$20,000,000), or such lesser principal amount of Loans (as defined in such Credit Agreement) due and payable by the Borrower to the Lender on the Maturity Date under that certain Credit Agreement, dated as of April 10, 2008 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement," the terms defined therein being used herein as therein defined), between the Borrower and the Lender.

The Borrower promises to pay interest on the unpaid principal amount of each Loan from the date of such Loan until such principal amount is paid in full, at such interest rates, and at such times as are specified in the Agreement. All payments of principal and interest shall be made to the Lender in Dollars in immediately available funds at the Lender's Lending Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is the Note referred to in the Agreement, is entitled to the benefits thereof and is subject to prepayment in whole or in part as provided therein. This Note is also entitled to the benefits of the Guaranty. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of the Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

QAD INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

LOANS AND PAYMENTS WITH RESPECT THERETO

<u>Date</u>	<u>Type of Loan Made</u>	<u>Amount of Loan Made</u>	<u>End of Interest Period</u>	<u>Amount of Principal or Interest Paid This Date</u>	<u>Outstanding Principal Balance This Date</u>	<u>Notation Made By</u>

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____,

To: Bank of America, N.A.

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of April 10, 2008 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement," the terms defined therein being used herein as therein defined), between QAD INC., a Delaware corporation, (the "Borrower") and Bank of America, N.A. (the "Lender").

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of the Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Lender on the behalf of the Borrower, and that:

[Use following paragraph 1 for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.01(a) of the Agreement for the fiscal year of the Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following paragraph 1 for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(b) of the Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of the Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Borrower performed and observed all its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, the Borrower performed and observed each covenant and condition of the Loan Documents applicable to it and no Default has occurred and is continuing.]

—or—

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. The representations and warranties of the Borrower contained in Article V of the Agreement and any representations and warranties of any Loan Party that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Compliance Certificate, the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Agreement, including the statements in connection with which this Compliance Certificate is delivered.

5. The financial covenant analyses and information set forth on Schedule 2 and Schedule 3 attached hereto are true and accurate on and as of the date of this Certificate.

6. Attached hereto as Schedule 4 is a true and complete listing of all Material Subsidiaries.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, _____.

QAD INC.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

For the Quarter/Year ended _____ (“Statement Date”)

SCHEDULE 2
to the Compliance Certificate
(\$ in 000’s)

I. Section 7.11 (a) — Consolidated Total Leverage Ratio.

A. Consolidated Funded Indebtedness at Statement Date: \$ _____

B. Consolidated EBITDA for four consecutive fiscal quarters ending on above date (“Subject Period”): \$ _____

1. Consolidated Net Income for Subject Period: \$ _____

2. Consolidated Interest Charges for Subject Period \$ _____

3. Provision for income taxes (net of credits) for Subject Period: \$ _____

4. Depreciation expenses for Subject Period: \$ _____

5. Amortization expenses for Subject Period: \$ _____

6. Financial Accounting Standard 123R charges incurred for Subject Period not representing cash items in Subject Period or future period (“FAS 123R Charges”): \$ _____

7. Consolidated EBITDA (Lines I.B.1 + 2 + 3 + 4 + 5 + 6): \$ _____

C. Consolidated Total Leverage Ratio (Line I.A ÷ Line I.B.7): _____ to 1

Maximum Permitted: 1.50:1.00

II. Section 7.11 (b) — Consolidated Fixed Charge Coverage Ratio.

A. Consolidated EBITDA for Subject Period (Line I.B.7): \$ _____

B. Capital Expenditures for Subject Period: \$ _____

C. Consolidated Interest Charges for Subject Period: \$ _____

D. Scheduled principal and interest payments for Indebtedness for Subject Period: \$ _____

E. Current portion of long term debt (excluding Obligations) at Statement Date: \$ _____

F. Consolidated Fixed Charge Coverage Ratio ((Lines II.A – B) ÷ (Lines II.C + D + E)): _____ to 1

Minimum Permitted: 2.00:1.00

III. Section 7.11 (c) — Consolidated Liquidity Ratio.

A. Cash and cash equivalents at Statement Date: \$ _____

B. Trade accounts receivable net of doubtful or uncollectible accounts at Statement Date: \$ _____

C. Current liabilities (excluding deferred revenues) at Statement Date: \$ _____

D. Total Outstandings (excluding current liabilities) at Statement Date: \$ _____

E. Consolidated Liquidity Ratio
((Lines III.A + B) ÷ (Lines III.C + D)); _____ to 1

Minimum Permitted: 1.30:1.00

IV. Section 7.11 (d) — Minimum Consolidated EBITDA.

A. Consolidated EBITDA for Subject Period (Line I.B.7): \$ _____

Minimum Permitted:: \$ 10,000,000.

For the Quarter/Year ended _____ (“Statement Date”)

SCHEDULE 3
to the Compliance Certificate
(\$ in 000’s)

Consolidated EBITDA

(in accordance with the definition of Consolidated EBITDA as set forth in the Agreement)

Consolidated EBITDA	Quarter Ended	Quarter Ended	Quarter Ended	Quarter Ended	Twelve Months Ended
Consolidated Net Income					
+ Consolidated Interest Charges					
+ income taxes (net of credits)					
+ depreciation expense					
+ amortization expense					
+ Financial Accounting Standard 123R charges (non-cash items)					
= Consolidated EBITDA					

SCHEDULE 4
to the Compliance Certificate
Material Subsidiaries

C-6

FORM OF GUARANTY

FOR VALUE RECEIVED, the sufficiency of which is hereby acknowledged, and in consideration of credit and/or financial accommodation heretofore or hereafter from time to time made or granted to QAD INC., a Delaware corporation, (the “Borrower”) by Bank Of America, N.A. and any other subsidiaries or affiliates of Bank of America Corporation and its successors and assigns (collectively the “Lender”), the undersigned Guarantor (whether one or more the “Guarantor”, and if more than one jointly and severally) hereby furnishes its guaranty (this “Guaranty”) of the Guaranteed Obligations (as hereinafter defined) as follows:

1. **Guaranty.** The Guarantor hereby absolutely and unconditionally guarantees, as a guaranty of payment and performance and not merely as a guaranty of collection, prompt payment when due, whether at stated maturity, by required prepayment, upon acceleration, demand or otherwise, and at all times thereafter, of any and all existing and future indebtedness and liabilities of every kind, nature and character, direct or indirect, absolute or contingent, liquidated or unliquidated, voluntary or involuntary and whether for principal, interest, premiums, fees indemnities, damages, costs, expenses or otherwise, of the Borrower to the Lender arising (a) under that certain Credit Agreement dated April 10, 2008 between the Borrower and the Lender (the “Credit Agreement”) and any instruments, agreements or other documents of any kind or nature now or hereafter executed in connection with the Credit Agreement (including all renewals, extensions, amendments, refinancings and other modifications thereof and all costs, attorneys’ fees and expenses incurred by the Lender in connection with the collection or enforcement thereof); (b) out of the Lender providing treasury management services to, for the benefit of or otherwise in respect of the Borrower, including, without limitation, intraday credit, Automated Clearing House (ACH) services, foreign exchange services, daylight overdrafts and zero balance arrangements; or (c) under any rate swap transaction, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond option, interest rate option, spot or forward foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit swap or default transaction, or any other similar transaction (including an option to enter into any of the foregoing) (each, a “Transaction” and collectively, the “Transactions”) with the Borrower (including any renewals, extensions or modifications thereof) arising out of or relating to any and all Transactions, including, without limitation, under any master agreement relating thereto or governing any such Transaction, entered into between the Lender and the Borrower; and in any case whether recovery upon such indebtedness and liabilities may be or hereafter become unenforceable or shall be an allowed or disallowed claim under any proceeding or case commenced by or against the Guarantor or the Borrower under the Bankruptcy Code (Title 11, United States Code), any successor statute or any other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally (collectively, “Debtor Relief Laws”), and including interest that accrues after the commencement by or against the Borrower of any proceeding under any Debtor Relief Laws (collectively, the “Guaranteed Obligations”).

The Lender's books and records showing the amount of the Guaranteed Obligations shall be admissible in evidence in any action or proceeding, and shall be binding upon the Guarantor and conclusive for the purpose of establishing the amount of the Guaranteed Obligations. This Guaranty shall not be affected by the genuineness, validity, regularity or enforceability of the Guaranteed Obligations or any instrument or agreement evidencing any Guaranteed Obligations, or by the existence, validity, enforceability, perfection, non-perfection or extent of any collateral therefor, or by any fact or circumstance relating to the Guaranteed Obligations which might otherwise constitute a defense to the obligations of the Guarantor under this Guaranty, and the Guarantor hereby irrevocably waives any defenses it may now have or hereafter acquire in any way relating to any or all of the foregoing. Anything contained herein to the contrary notwithstanding, the obligations of the Guarantor hereunder at any time shall be limited to an aggregate amount equal to the largest amount that would not render its obligations hereunder subject to avoidance as a fraudulent transfer or conveyance under Section 548 of the Bankruptcy Code (Title 11, United States Code) or any comparable provisions of any similar federal or state law.

2. No Setoff or Deductions; Taxes; Payments. The Guarantor shall make all payments hereunder without setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Guarantor is compelled by law to make such deduction or withholding. If any such obligation (other than Excluded Taxes, as defined in the Credit Agreement) is imposed upon the Guarantor with respect to any amount payable by it hereunder, the Guarantor will pay to the Lender, on the date on which such amount is due and payable hereunder, such additional amount in U.S. dollars as shall be necessary to enable the Lender to receive the same net amount which the Lender would have received on such due date had no such obligation been imposed upon the Guarantor. The Guarantor will deliver promptly to the Lender certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Guarantor hereunder. The obligations of the Guarantor under this paragraph shall survive the payment in full of the Guaranteed Obligations and termination of this Guaranty.

3. Rights of Lender. The Guarantor consents and agrees that the Lender may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness hereof: (a) amend, extend, renew, compromise, discharge, accelerate or otherwise change the time for payment or the terms of the Guaranteed Obligations or any part thereof; (b) take, hold, exchange, enforce, waive, release, fail to perfect, sell, or otherwise dispose of any security for the payment of this Guaranty or any Guaranteed Obligations; (c) apply such security and direct the order or manner of sale thereof as the Lender in its sole discretion may determine; and (d) release or substitute one or more of any endorsers or other guarantors of any of the Guaranteed Obligations. Without limiting the generality of the foregoing, the Guarantor consents to the taking of, or failure to take, any action which might in any manner or to any extent vary the risks of the Guarantor under this Guaranty or which, but for this provision, might operate as a discharge of the Guarantor.

4. Certain Waivers. The Guarantor waives (a) any defense arising by reason of any disability or other defense of the Borrower or any other guarantor, or the cessation from any cause whatsoever (including any act or omission of the Lender) of the liability of the Borrower; (b) any defense based on any claim that the Guarantor's obligations exceed or are more burdensome than those of the Borrower; (c) the benefit of any statute of limitations affecting the Guarantor's liability hereunder; (d) any right to proceed against the Borrower, proceed against or exhaust any security for the Indebtedness, or pursue any other remedy in the Lender's power whatsoever; (e) any benefit of and any right to participate in any security now or hereafter held by the Lender; and (f) to the fullest extent permitted by law, any and all other defenses or benefits that may be derived from or afforded by applicable law limiting the liability of or exonerating guarantors or sureties. The Guarantor expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guaranteed Obligations, and all notices of acceptance of this Guaranty or of the existence, creation or incurrence of new or additional Guaranteed Obligations.

5. Obligations Independent. The obligations of the Guarantor hereunder are those of primary obligor, and not merely as surety, and are independent of the Guaranteed Obligations and the obligations of any other guarantor, and a separate action may be brought against the Guarantor to enforce this Guaranty whether or not the Borrower or any other person or entity is joined as a party.

6. Subrogation. The Guarantor shall not exercise any right of subrogation, contribution, indemnity, reimbursement or similar rights with respect to any payments it makes under this Guaranty until all of the Guaranteed Obligations and any amounts payable under this Guaranty have been indefeasibly paid and performed in full and any commitments of the Lender or facilities provided by the Lender with respect to the Guaranteed Obligations are terminated. If any amounts are paid to the Guarantor in violation of the foregoing limitation, then such amounts shall be held in trust for the benefit of the Lender and shall forthwith be paid to the Lender to reduce the amount of the Guaranteed Obligations, whether matured or unmatured.

7. Termination; Reinstatement. This Guaranty is a continuing and irrevocable guaranty of all Guaranteed Obligations now or hereafter existing and shall remain in full force and effect until all Guaranteed Obligations and any other amounts payable under this Guaranty are indefeasibly paid in full in cash and any commitments of the Lender or facilities provided by the Lender with respect to the Guaranteed Obligations are terminated. Notwithstanding the foregoing, this Guaranty shall continue in full force and effect or be revived, as the case may be, if any payment by or on behalf of the Borrower or the Guarantor is made, or the Lender exercises its right of setoff, in respect of the Guaranteed Obligations and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Laws or otherwise, all as if such payment had not been made or such setoff had not occurred and whether or not the Lender is in possession of or has released this Guaranty and regardless of any prior revocation, rescission, termination or reduction. The obligations of the Guarantor under this paragraph shall survive termination of this Guaranty.

8. **Subordination.** The Guarantor hereby subordinates the payment of all obligations and indebtedness of the Borrower owing to the Guarantor, whether now existing or hereafter arising, including but not limited to any obligation of the Borrower to the Guarantor as subrogee of the Lender or resulting from the Guarantor's performance under this Guaranty, to the indefeasible payment in full in cash of all Guaranteed Obligations. If the Lender so requests, any such obligation or indebtedness of the Borrower to the Guarantor shall be enforced and performance received by the Guarantor as trustee for the Lender and the proceeds thereof shall be paid over to the Lender on account of the Guaranteed Obligations, but without reducing or affecting in any manner the liability of the Guarantor under this Guaranty.

9. **Stay of Acceleration.** In the event that acceleration of the time for payment of any of the Guaranteed Obligations is stayed, in connection with any case commenced by or against the Guarantor or the Borrower under any Debtor Relief Laws, or otherwise, all such amounts shall nonetheless be payable by the Guarantor immediately upon demand by the Lender.

10. **Expenses.** The Guarantor shall pay on demand all out-of-pocket expenses (including attorneys' fees and expenses and the allocated cost and disbursements of internal legal counsel) in any way relating to the enforcement or protection of the Lender's rights under this Guaranty or in respect of the Guaranteed Obligations, including any incurred during any "workout" or restructuring in respect of the Guaranteed Obligations and any incurred in the preservation, protection or enforcement of any rights of the Lender in any proceeding any Debtor Relief Laws. The obligations of the Guarantor under this paragraph shall survive the payment in full of the Guaranteed Obligations and termination of this Guaranty.

11. **Miscellaneous.** No provision of this Guaranty may be waived, amended, supplemented or modified, except by a written instrument executed by the Lender and the Guarantor. No failure by the Lender to exercise, and no delay in exercising, any right, remedy or power hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy or power hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and not exclusive of any remedies provided by law or in equity. The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision herein. Unless otherwise agreed by the Lender and the Guarantor in writing, this Guaranty is not intended to supersede or otherwise affect any other guaranty now or hereafter given by the Guarantor for the benefit of the Lender or any term or provision thereof.

12. **Condition of Borrower.** The Guarantor acknowledges and agrees that it has the sole responsibility for, and has adequate means of, obtaining from the Borrower and any other guarantor such information concerning the financial condition, business and operations of the Borrower and any such other guarantor as the Guarantor requires, and that the Lender has no duty, and the Guarantor is not relying on the Lender at any time, to disclose to the Guarantor any information relating to the business, operations or financial condition of the Borrower or any other guarantor (the guarantor waiving any duty on the part of the Lender to disclose such information and any defense relating to the failure to provide the same).

13. **Setoff.** If and to the extent any payment is not made when due hereunder, the Lender may setoff and charge from time to time any amount so due against any or all of the Guarantor's accounts or deposits with the Lender.

14. **Indemnification and Survival.** Without limitation on any other obligations of the Guarantor or remedies of the Lender under this Guaranty, the Guarantor shall, to the fullest extent permitted by law, indemnify, defend and save and hold harmless the Lender from and against, and shall pay on demand, any and all damages, losses, liabilities and expenses (including attorneys' fees and expenses) that may be suffered or incurred by the Lender in connection with or as a result of any failure of any Guaranteed Obligations to be the legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms. The obligations of the Guarantor under this paragraph shall survive the payment in full of the Guaranteed Obligations and termination of this Guaranty.

15. **Assignment; Notices.** This Guaranty shall (a) bind the Guarantor and its successors and assigns, provided that the Guarantor may not assign its rights or obligations under this Guaranty without the prior written consent of the Lender (and any attempted assignment without such consent shall be void), and (b) inure to the benefit of the Lender and its successors and assigns and the Lender may, without notice to the Guarantor and without affecting the Guarantor's obligations hereunder, assign, sell or grant participations in the Guaranteed Obligations and this Guaranty, in whole or in part. To the extent permitted under the Credit Agreement, the Guarantor agrees that the Lender may disclose to any assignee of or participant in, or any prospective assignee of or participant in, any of its rights or obligations of all or part of the Guaranteed Obligations any and all information in the Lender's possession concerning the Guarantor, this Guaranty and any security for this Guaranty. All notices and other communications to the Guarantor under this Guaranty shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier to the Guarantor at its address set forth below or at such other address in the United States as may be specified by the Guarantor in a written notice delivered to the Lender at such office as the Lender may designate for such purpose from time to time in a written notice to the Guarantor.

16. Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. THE GUARANTOR IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN, NEW YORK CITY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT OF NEW YORK, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT,

AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS GUARANTY OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT THE LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT AGAINST THE GUARANTOR OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE GUARANTOR IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (b) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 9.02 OF THE CREDIT AGREEMENT. NOTHING IN THIS GUARANTY WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

17. Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS GUARANTY AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

18. **USA PATRIOT Act Notice.** The Lender hereby notifies the Guarantor that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Guarantor, which information includes the name and address of the Guarantor and other information that will allow the Lender to identify the Guarantor in accordance with the Act.

19. **Judgment Currency.** If, for the purposes of obtaining any arbitration award or judgment in any court, it is necessary to convert a sum due hereunder in one currency into another currency, the rate of exchange used shall be that at which in accordance with normal banking procedures the Lender could purchase the first currency with such other currency on the Business Day preceding that on which the arbitration award or final judgment, as applicable, is given. The obligation of the Guarantor in respect of any such sum due from it to the Lender hereunder shall, notwithstanding any arbitration award or judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of the Credit Agreement (the "Agreement Currency"), be discharged only to the extent that on the Business Day following receipt by the Lender of any sum deemed to be so due in the Judgment Currency, the Lender may in accordance with normal banking procedures purchase the Agreement Currency with the Judgment Currency. If the amount of the Agreement Currency so purchased is less than the sum originally due to the Lender from the Guarantor in the Agreement Currency, the Guarantor agrees, as a separate obligation and notwithstanding any such arbitration award or judgment, to indemnify the Lender or the Person to whom such obligation was owing against such loss. If the amount of the Agreement Currency so purchased is greater than the sum originally due to the Lender in such currency, the Lender (by its acceptance hereof) agrees to return the amount of any excess to the Guarantor (or to any other Person who may be entitled thereto under applicable law). The agreements in this Section 19 shall survive the termination of the Commitments and repayment of all Guaranteed Obligations.

[Remainder of this page intentionally left blank]

Executed as of the _____ day of _____, _____.

[NAME OF GUARANTOR(S)]

By: _____

Name: _____

Title: _____

Address: _____

[Signature Page to Guaranty]

Exhibit 21.1

**QAD Inc.
LIST OF REGISTRANT'S SUBSIDIARIES**

<i>Percentage Owned by QAD Inc.</i>	<i>Country of Organization</i>
QAD Australia Pty. Ltd. — 100%	Australia
QAD Europe NV/SA — 100%	Belgium
QAD Brasil Ltda. — 100%	Brazil
QAD Bermuda Ltd. — 100%	Bermuda
QAD Canada ULC — 100%	Canada
QAD China Ltd. — 100%	China
QAD Europe s.r.o. — 100%	Czech Republic
QAD Europe SAS — 100%	France
QAD Europe GmbH — 100%	Germany
QAD Asia Limited — 100%	Hong Kong
QAD India Private Limited — 100%	India
Columbus Software Systems Limited — 100%	Ireland
Precision Software Limited — 100%	Ireland
QAD Ireland Limited — 100%	Ireland
QAD Italy S.r.l. — 100%	Italy
QAD Japan k.k. — 100%	Japan
QAD Korea Limited — 100%	Korea
QAD Mexicana, S.A. de C.V. — 100%	Mexico
QAD Sistemas Integrados Servicios de Consultoria, S.A. de C.V. — 100%	Mexico
QAD EMEA Holdings B.V. — 100%	Netherlands
QAD Europe B.V. — 100%	Netherlands
QAD Holland Holdings B.V. — 100%	Netherlands
QAD Netherlands B.V. — 100%	Netherlands
QAD NZ Limited — 100%	New Zealand
QAD Polska Sp. zo.o. — 100%	Poland
QAD Lusitana Lda. — 100%	Portugal
QAD Singapore Private Limited — 100%	Singapore
QAD Software South Africa (Pty) Ltd. — 100%	South Africa
QAD Europe S.L. — 100%	Spain
QAD Europe A.G. — 100%	Switzerland
QAD I&I Company Limited — 100%	Thailand (1)
QAD Bilgisayar Yazilim Ltd. Sirketi — 100%	Turkey
Bisgen Ltd. — 100%	United Kingdom
Precision Distribution Systems Limited — 100%	United Kingdom
Precision Solutions Limited — 100%	United Kingdom
QAD EMEA Limited — 100%	United Kingdom
QAD Europe Limited — 100%	United Kingdom
QAD Holding Limited — 100%	United Kingdom
QAD Ltd. — 100%	United Kingdom
QAD United Kingdom Ltd. — 100%	United Kingdom
Enterprise Engines, Inc. — 100%	USA
FBO Systems, Inc. — 100%	USA
QAD Brazil Inc. — 100%	USA
QAD Holdings Inc. — 100%	USA
QAD Japan Inc. — 100%	USA
QAD Ortega Hill, LLC — 100%	USA

- (1) On April 19, 2007, the minority shareholders exercised their put option to sell their shares, representing 25% ownership in the Thailand subsidiary, to QAD Inc. The shares were transferred pursuant to the put on March 7, 2008.

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
QAD Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-137417, 333-66610, 333-48381, and 333-35367) of QAD Inc. and subsidiaries (the Company) of our reports dated April 15, 2008, with respect to the consolidated balance sheets of QAD Inc. as of January 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended January 31, 2008, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of January 31, 2008, which reports appear in the January 31, 2008 Annual Report on Form 10-K of QAD Inc.

Our report dated April 15, 2008, refers to accounting changes upon the Company's adoption of Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, on February 1, 2007, Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment*, on February 1, 2006, and Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements* in 2006.

KPMG LLP

Los Angeles, California
April 15, 2008

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

I, Karl F. Lopker, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-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: April 15, 2008

/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 Annual Report on Form 10-K 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 13(a)-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15(d)-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: April 15, 2008

/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 Annual Report of QAD Inc. (the "Company") on Form 10-K for the period ending January 31, 2008 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 results of operations of the Company.

Date: April 15, 2008

/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 Annual Report of QAD Inc. (the "Company") on Form 10-K for the period ending January 31, 2008 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 results of operations of the Company.

Date: April 15, 2008

/s/ DANIEL LENDER

Daniel Lender
Chief Financial Officer
QAD Inc.