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

FORM 10-K

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

For the fiscal year ended January 31, 2011

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	**77-0105228**
(State or Other Jurisdiction of Incorporation or Organization)	(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(g) of the Act:

Title of Each Security	**Name of Each Exchange on Which Registered**
Class A Common Stock, $.001 par value	The NASDAQ Stock Market LLC
Class B Common Stock, $.001 par value	(NASDAQ Global Select Market)

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. £ YES R 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 R 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. R 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 (Do not check if a smaller reporting company)	R Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). £ YES R NO

As of July 31, 2010, the last business day of the Registrant's most recently completed second fiscal quarter, there were 31,526,729 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, 2010) was approximately $51.9 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, 2011, there were 12,795,848 shares of the Registrant's Class A common stock outstanding and 3,184,076 shares of the Registrant's Class B 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 7, 2011.

QAD INC.
FISCAL YEAR 2011 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

	Page
PART I	
ITEM 1. BUSINESS	3
ITEM 1A. RISK FACTORS	11
ITEM 1B. UNRESOLVED STAFF COMMENTS	21
ITEM 2. PROPERTIES	21
ITEM 3. LEGAL PROCEEDINGS	21
ITEM 4. RESERVED	21
PART II	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	22
ITEM 6. SELECTED FINANCIAL DATA	25
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	26
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	41
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	41
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	41
ITEM 9A. CONTROLS AND PROCEDURES	41
ITEM 9B. OTHER INFORMATION	44
PART III	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	44
ITEM 11. EXECUTIVE COMPENSATION	45
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	45
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	45
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	45
PART IV	
ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES	46
SIGNATURES	77

FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. *BUSINESS*

ABOUT QAD

QAD Inc. (“QAD”, the “Company”, “we” or “us”) is a global provider of enterprise software applications, and related services and support. QAD provides enterprise software applications to global manufacturing companies primarily in the automotive, consumer products, food and beverage, high technology, industrial products and life sciences industries. QAD software is used by over 2,500 global manufacturing companies and we employ approximately 1,350 people worldwide. QAD was founded in 1979, incorporated in California in 1986 and reincorporated in Delaware in 1997.

QAD’s enterprise resource planning (“ERP”) suite is called QAD Enterprise Applications and was formerly marketed as MFG/PRO. QAD Enterprise Applications supports our global manufacturing customers’ core business needs and enables their most common business processes.

QAD typically sells licenses to its software under a perpetual licensing model. Customers who purchase perpetual licenses typically deploy the application using an on premise model on their own servers. Customers under the perpetual licensing model may purchase separately, contracts for maintenance and additional services. QAD also offers an on demand deployment option in which QAD hosts the application and provides support and management of the environment, and where the customers pay a subscription fee that grants them access to the environment.

Industries we serve:

Automotive: QAD solutions address the needs of global automotive parts manufacturers. QAD solutions are developed with specific capabilities to support industry initiatives, such as the Materials Management Operational Guidelines/Logistics Evaluation. Our solutions support the collaboration requirements of “Tier 1” suppliers (the companies who deal directly with Original Equipment Manufacturers) and suppliers at lower tiers of the supply chain. QAD actively participates in key industry associations and supports customers in the main automotive markets around the world.

Consumer Products: QAD delivers solutions for consumer products companies worldwide. Our customers manufacture a broad range of consumer products from consumer electronics to durable goods. QAD solutions address the complex demand management and replenishment requirements of companies supplying a retail supply chain, including promotional pricing, cold chain and quality compliance.

Food and Beverage: QAD solutions address many sectors of the food and beverage industry. We address the needs of customers in the daily fresh and fresh-baking industries, who plan and deliver their production within hours instead of days. Additionally, we support regulatory and quality initiatives throughout the Cold Chain and Hazard Analysis and Critical Control Point Analysis. QAD solutions are used to control the entire supply chain and manufacturing process from the primary produce end of the value chain to the supermarket shelf.

High Technology (Electronics): QAD solutions are used by many high technology companies whose products include semi-conductors, smart cards, telecommunications equipment, and test and measurement equipment. QAD solutions are used to control their entire businesses, including after sales service and support and the management of field engineers harnessing QAD's mobile technology.

Industrial Products: QAD solutions address the needs of companies who make industrial products for a diverse range of market segments. Our customers include companies that manufacture components for the aerospace industry and sophisticated ceramics used in defense products. These companies benefit from QAD's knowledge in supporting product configuration and engineering control.

Life Sciences: QAD solutions support life sciences manufacturers, particularly those developing medical devices and bio-technology products. Our solutions support regulatory compliance requirements in Current Good Manufacturing Practices.

THE QAD STRATEGY

QAD's vision for its customers is called the Effective Enterprise. As an Effective Enterprise, a company operates at peak efficiency by executing in the most efficient manner, without wasted effort or resources. QAD is helping companies achieve this vision by aligning their systems and processes with their business goals and strategies. We do this by delivering solutions that promote efficient operations, deployment technologies that make applications simpler to support and easier to use and learn, and implementation methods that simplify and reduce risk and effort. Moreover, we develop our methods and products to support this vision and align with industry requirements.

Our Effective Enterprise vision is the foundation for our strategies as follows:

Enhance Customer Engagement to Deliver Continuous Value. QAD engages closely with customers at every stage in the sales and services lifecycles. We have developed several consultative engagement processes designed to assess our customers' business and manufacturing needs, and provide counsel and solutions to help achieve them. We review their business processes to help refine their existing systems and/or deploy new tools. We advise how best to deploy and use QAD Enterprise Applications and engage with QAD Global Services, or our partners, to achieve maximum value. We have experienced services personnel located throughout the world to provide global deployment consistency and standards. Our services organization combines deep industry expertise with tools developed specifically to meet our customers' needs.

Leverage QAD Expertise in Key Industries. QAD employs staff with specific knowledge and experience in the industries in which our customers operate. We actively participate in leading industry associations and are seen by our customers as experts in their field. Our knowledge is often guided and enhanced by regular customer interaction. This collective experience and industry interaction allows QAD to develop solutions with specific capabilities that address our customers' needs.

Leverage the QAD Brand in Emerging Markets. Many QAD customers operate as global manufacturing companies. They rely on us to deliver products and services when and where they need them. These customers often establish operations in countries with emerging economies. They want to benefit from lower cost of operations and growing market opportunities. To support our customers' strategies, we too have established operations in emerging markets. We leverage our local market presence, our extensive global partner network, and develop products that support local languages, business practices and regulatory requirements to cumulatively provide QAD customers with the support and expertise they need to capitalize on emerging market opportunities.

Invest in Research and Development. QAD continues to commit significant investment in research and development ("R&D"). We have expanded the capabilities of QAD Enterprise Applications to enhance its value to customers and improve our competitive position. In fiscal year 2011, we delivered significant product features and functionality enhancements to both our Standard Edition and Enterprise Edition of QAD Enterprise Applications. We enhanced both products in areas of business intelligence, enterprise asset management, manufacturing workbenches and overall usability. To support our R&D strategy, we also acquire businesses and technologies that complement our capabilities. Additionally, we address customers' requirements through joint development initiatives. These efforts have yielded capabilities from which all QAD customers have benefitted.

Continue to Embrace Evolving Technologies. QAD continues to embrace new technologies that deliver value to our customers and support their ever-changing technological, financial and business requirements. Currently, one of these evolving technologies is cloud ERP. Cloud ERP, which consists of delivering software as a service ("SaaS"), or On Demand products, data storage and access, computing and communications, along with other services through the Internet versus on a company's on-site servers, networks and infrastructure, is rapidly growing in popularity. As businesses look at new ways to reduce the cost of managing and maintaining their information technology ("IT") systems, while remaining current with rapidly evolving technology trends in an increasingly global economy, cloud ERP can offer businesses the ability to securely provide data and applications to their employees, partners and customers, anywhere in the world through Internet-accessible servers that are managed and maintained by third parties. Increased market acceptance of cloud ERP is driving adoption of more mission critical cloud-based services. Businesses are viewing cloud ERP, or SaaS, as a smart investment because it offers many benefits, including low initial and predictable ongoing costs, reduced cost of ownership, high reliability and reduced IT complexity.

Leverage Customer Relationships. QAD continues to cultivate strong customer loyalty and lasting relationships based on trust, responsiveness, and quality. QAD provides capabilities that enable our customers to manage and grow their organizations. We also offer many value-added tools as part of our customers' maintenance and support agreements. These include a wide range of online learning material and upgrades to our latest user interface at no additional charge.

Leverage Our Global Partner Network. QAD's network of strategic partnerships, alliances and consultants extends the functionality of QAD solutions and supports our customers' needs around the world. Our network ensures QAD customers receive a consistent level of high quality sales, support, solutions and services delivery, across the globe, from major territories to remote geographies. This QAD "ecosystem" allows us to augment our direct sales organization with distributors and sales agents, and our services organizations with additional consulting and implementation services.

QAD SOLUTIONS

QAD products and services support the common business processes used by global manufacturing customers. We continuously monitor emerging business requirements and practices and incorporate them into our product and solutions strategies. Our ERP suite, QAD Enterprise Applications incorporates pre-defined business processes that reflect common best practices for customers in our target markets. This supports our solutions which are easy to implement, simple to use and deliver value to our customers' business.

In support of our focus on business process efficiency, we have integrated process maps for all common business processes into our software and developed QAD Process Editor. This tool simplifies implementation, maps all common business processes and facilitates navigation throughout the entire product suite. QAD process maps are integrated into the software user interface and serve several functions. They allow users to visualize how their company's business processes are configured and help understand the context of their role in a particular process. They launch application functionality and visually demonstrate how information and material flows throughout the business. QAD process maps greatly reduce the challenges of training users in broad application functionality.

In fiscal year 2011, we also incorporated the foundation for a new methodology that we call 'Easy On Boarding'. This set of tools integrates with the QAD Process Editor to simplify our solutions implementations. The Easy On Boarding concept is used during implementation when customers map their specific business processes to predefined process maps and attach operating procedures and other relevant information to each process step to assist in training users and to provide further documentation for the process. This information is easily accessed when the system is in production which reduces the need to document business processes and operating procedures, and accelerates implementation. We will continue to invest in the development of Easy On Boarding.

QAD customers often integrate QAD solutions with other systems they use within their organizations. QAD solutions have been developed to facilitate integration. For example, we enable seamless integration with all desktop applications. QAD solutions can support operations on many relational database platforms and connect to different data sources. QAD solutions also integrate easily with other software applications and Web services. Using our QXtend toolset, customers can connect to different software, even when remote, and use industry standard middleware products such as the MQ™ series or the Sonic™ Enterprise Service Bus.

QAD products have been designed to be simple to learn and use, and have a user-friendly interface design. We have invested significant research and development in the areas of usability to enhance the user experience.

QAD Enterprise Applications

QAD Enterprise Applications is an integrated suite of software applications which supports the core business processes of global manufacturing companies. The suite provides specific functionality for global manufacturing companies in targeted industries. QAD Enterprise Applications allows customers to monitor, control and support their operations, whether operating a single plant or multiple sites, wherever they are located in the world.

QAD Enterprise Applications has evolved over time to address a broader range of business processes. It is available in two editions, Standard Edition and Enterprise Edition. The Enterprise Edition provides supplementary capabilities to the Standard Edition, primarily related to an advanced Enterprise Financials suite, which has additional capabilities to assist companies with global complexities in their business models.

QAD Enterprise Applications supports multiple deployment methods, including: On Premise (the system is installed on a customer's computer), On Appliance (the system is delivered on a machine that QAD remotely supports and administers), On Demand (the system is delivered in a SaaS/cloud application model and is accessible remotely via the Internet), or as a hybrid of these options. Blended deployment allows customers to choose how they deploy their business solutions based on their unique business needs.

QAD Enterprise Applications is comprised of the software suites detailed below.

QAD Financials

QAD Financials provides advanced capabilities to manage and control fiscal business processes at a local, regional and global level. It supports multi-company, multi-currency, multi-language and multi-tax jurisdictions, as well as robust consolidated reporting and budgeting controls. These capabilities give cross-functional stakeholders instant access to their company's entire financial position enabling faster, more informed decision-making. QAD Financials covers both transactional accounts and corporate finance requirements.

QAD Customer Management

QAD Customer Management ("CM") enables global manufacturers to acquire new customers efficiently, grow revenue through multiple channels and retain customers through superior service and support. QAD CM helps customers measure marketing campaigns, manage the sales opportunity lifecycle, and optimize order and fulfillment processes. Additionally, QAD CM helps customers anticipate their customer demand and ensure retention though multiple service channels and the customer self-service module.

QAD Manufacturing

QAD Manufacturing delivers complete capabilities in the areas of planning and scheduling, cost management, material control, shop floor control and reporting in various mixed-mode manufacturing environments. This includes Discrete, Repetitive, Kanban (token-based visual control), Flow, Batch/Formula, Process and Co-products/By-products manufacturing environments.

QAD Manufacturing enables companies to deploy business processes in line with their industry's best practices. The integration between scheduling, planning, execution and materials allows tight control and simple management of processes.

QAD Supply Chain

QAD Supply Chain is a comprehensive group of applications that fulfills the diverse materials planning and movement requirements of global companies. This solution set delivers functionality and capabilities that help manufacturers drive margin and cost improvements, enhance customer satisfaction and meet industry compliance requirements. Manufacturers can align supply and demand to support the delivery of the right product, to the right place, at the right time, at the most efficient cost.

QAD Supply Chain addresses simple or complex networks with enhanced functionality available as the enterprise grows. Collaborative portals are available for both demand and supply side needs.

QAD Service and Support

QAD Service and Support enables exceptional customer service and support after the sale, providing a key opportunity for businesses to differentiate themselves from competitors. QAD Service and Support handles service calls, manages service queues and organizes mobile field resources to promote customer satisfaction. It also provides extensive project management support, helping organizations track materials and labor against warranty and service work, compare actual costs to budget, and generate appropriate invoicing.

QAD Enterprise Asset Management

QAD Enterprise Asset Management is an integrated plant operation solution. It enables companies to operate global manufacturing plants smoothly and keep equipment running at the lowest cost. The QAD Enterprise Asset Management suite manages assets from inception through operations and replacement. This suite is a critical component of many global manufacturers' systems today.

QAD Transportation Management

QAD Transportation Management streamlines transportation processes, reduces costs and ensures global compliance. QAD Transportation Management addresses the needs of distributors and manufacturers in the key areas of global trade management, freight management and trade compliance. QAD markets QAD Transportation Management directly to existing manufacturing customers and to companies outside of our installed base, under the Precision brand.

QAD Analytics

QAD Enterprise Applications provides decision makers and company stakeholders with key data right at their desktop. QAD Analytics helps customers perform complex analyses, make more informed decisions, and improve performance management overall. Our extended capabilities called Operational Metrics enables users to establish key performance indicators and visualize exceptions and conditions against them. It also helps to measure the efficiency and effectiveness of an operation or process.

In fiscal year 2011, QAD launched its next generation release of QAD Business Intelligence ("BI"). This QAD Enterprise Applications module is comprised of three key application components: QAD BI Data Warehouse, BI Module(s) and QAD BI Portal. Combined, these components can provide organizations with easy access to consolidated performance-based data from multiple sources across the enterprise. QAD Business Intelligence can also provide a complete solution that enables C-level executives and key decision makers to access, analyze and share critical information dynamically.

QAD Interoperability

QAD Enterprise Applications is built on a service-oriented architecture ("SOA"). This allows customers to integrate QAD Enterprise Applications with other non-QAD core business applications. Through our QAD QXtend toolset, we promote open interoperability and offer QAD customers a choice of technologies in their software environments. This ease of integration lowers the total cost of ownership for our customers.

QAD On Demand and Other Products offered on a Subscription Basis

QAD products sold on a subscription basis include QAD On Demand, QAD Supply Chain Portal and QAD Transportation Management System Content ("TMS Content").

QAD On Demand

QAD delivers the capabilities of QAD Enterprise Applications in a SaaS model with its QAD On Demand offering. Customers pay a monthly subscription fee for use of QAD software, support and management of their system through the Internet versus on a company's own server.

QAD Supply Chain Portal

Supply Chain Portal is a hosted Internet application that provides a customer's authorized suppliers real-time visibility into their inventory, schedule and order data. The application improves supplier efficiency and reduces operating and inventory costs through real-time supply chain collaboration.

QAD TMS Content

TMS Content is a hosted Internet application which obtains real time parcel carrier routing information and rates and ensures that content data is both accurate and compliant. This subscription service includes automatic carrier updates for routes, published rates, surcharges, and changes to service offerings.

Our subscription offerings provide our customers flexibility in how they manage their IT environments. These products provide many benefits, including low initial and predictable ongoing costs, reduced cost of ownership, high reliability and reduced IT complexity. Subscription revenues represented less than 5% of total revenues in each of fiscal 2011, 2010 and 2009.

QAD Customer Support and License Updates

We offer customer support services and product enhancements and upgrades. QAD Customer Support includes Internet and telephone access to technical support personnel located in our global support centers. Through our support offering, QAD provides the resources, tools and expertise needed to maximize the use of QAD Enterprise Applications. We offer access to an extensive knowledge base, online training materials, a virtual training environment, remote diagnostics, a software download center and live chat. Our global support professionals focus on quickly resolving customers' issues, maintaining optimal system performance, and providing uninterrupted service for complete customer satisfaction.

License updates provide customers with rights to unspecified software product upgrades during the term of the support period. Customer support services and license updates are provided as part of our maintenance contracts. Substantially all of our customers purchase maintenance when they acquire new licenses and greater than 90% of our customers renew their maintenance contracts annually. Our maintenance and other revenue represented 60%, 61% and 51% of our total revenues in fiscal 2011, 2010 and 2009, respectively.

QAD Global Services

QAD Global Services comprises over 350 consultants in more than 20 countries. We augment our global services organization with a vast, global network of strategic partners, alliances and consultants. Global Services provides global coverage and local expertise which helps customers get the best value from their QAD investment. QAD Global Services employs Easy On Boarding implementation methodology, based on best practice templates and global standards.

QAD Global Services offers the following:

- Implementation Services: Includes implementations, core model development and rollout, customization development, training, installations and reporting services;

- On Demand and Application Management Services: Includes service delivery management, application life cycle management, help desk support, systems management and infrastructure management services;

- Migration and Upgrade Services: Includes technical conversions, service pack upgrades, customization upgrades, migrations to current releases of QAD Enterprise Applications and upgrade assessments; and

- Business Process Management Services: Includes business process optimization services, business metrics improvement, health checks and return on investment tools.

QAD Education

QAD Education delivers an extensive course curriculum in a variety of convenient formats. We allow QAD customers to fully leverage the capabilities of QAD Enterprise Applications. QAD Education includes instructor-led training (either in classroom or live via distance learning). We offer independent, online learning modules and self-study training guides. We offer direct access to the software for hands-on practice. QAD also offers customized courses taught on-site to meet specific company needs.

QAD Enterprise Applications course offerings are available to end users, IT professionals and department managers, partners and consultants. QAD Education also provides industry recognized certification for most courses.

QAD GLOBAL PARTNER NETWORK

QAD's Global Partner Network is an "ecosystem" of strategic partnerships and alliances with solution sellers, consultants, software and database developers, independent software vendors, system integrators and service organizations worldwide. QAD has more than 150 alliances of varying size and complexity. From major territories to remote geographies, this network seamlessly delivers sales, support, solutions and services as one unified QAD organization. QAD cultivates long-term relationships with alliances we deem the industry's best and who can deliver value to our customers.

The QAD network extends the functionality of QAD solutions and the value-chain to our customers. We deliver specific applications that meet customer requirements and support varying hardware platforms. Periodically, QAD jointly develops technology with our partners and provides third-party functionality embedded into or integrated with QAD products.

COMPETITION

QAD Enterprise Applications are sold to global manufacturing companies in the automotive, consumer products, food and beverage, high technology (electronics), industrial products and life sciences markets. Within these manufacturing industries, QAD competes against ERP vendors who are regarded as generalist, specialist, or smaller or local market providers with niche offerings. QAD considers the key competitive factors in each of the categories we serve to be total cost of ownership, scalability, reliability, security, functionality, usability, quality, ease of management, service and support.

SAP, Oracle, Infor and Microsoft Dynamics hold the largest market share of the broad ERP marketplace. These companies have broad market footprints developing applications targeted at many industries. Specialist ERP providers include Epicor, Lawson and several others. These vendors typically focus on point solutions and/or niche offerings, focused on a specific functionality, product area or industry.

QAD also competes in the emerging space of cloud ERP delivered in a SaaS model with its QAD On Demand offering. In this space, QAD primarily competes with existing ERP players who are focused on developing or delivering cloud ERP solutions delivered in a SaaS model. Additionally, some smaller companies have developed basic solutions.

From a competitive perspective, ERP providers of all sizes often compete for the same business in a given market. The scalability of QAD Enterprise Applications allows companies with as few as five users and as many as thousands of users to use the same applications. This scalability enables local companies to deploy the same applications as global companies.

TECHNOLOGY AND PRODUCT DEVELOPMENT

QAD Enterprise Applications was designed to adapt to customer requirements and integrate with other systems. We embrace open components which allow customers to utilize different operating systems, hardware platforms and underlying databases when deploying their software applications. Recently, we transitioned to a services-oriented architecture for our applications to allow QAD Enterprise Applications components to communicate with one another through industry-standard messaging techniques. We also allow our customers to harness other Web services to deliver the full benefit to their businesses.

QAD Enterprise Applications utilizes a variety of commonly available and widely supported development environments. The most significant technologies we use are the Progress Open Edge platform, Microsoft's .NET framework, and Java, originally created by Sun Microsystems. QAD Enterprise Applications supports most commercial operating systems, including most LINUX-derived operating systems, Windows Server System 2003/2008 and most proprietary versions of UNIX. Where practical, QAD uses open industry standards to collaborate and integrate QAD Enterprise Applications with other systems.

QAD's domain architecture provides the foundation for QAD Enterprise Applications. This architecture gives global customers greater flexibility in their choices for system deployment. Customers can select centralized, decentralized or hybrid computing architectures with parts of their enterprise running from both central resources and local resources. QAD customers also can configure their systems to support dynamic business models and customers can easily reconfigure their systems to reflect business structure modifications, such as divestments or acquisitions.

In recent years, QAD has invested heavily on developing software that is simple and intuitive to users, requires minimal training and delivers high functionality. QAD has created a single interface for most of its software applications. This user interface enables users to harness common functions such as reporting and inquires, regardless of which part of the software application they use. Additionally, customers benefit from simple navigation and the ability to visualize their roles in the context of a business process. QAD continues to focus on developing QAD Enterprise Applications to be simple and intuitive to use to maximize productivity.

RESEARCH AND DEVELOPMENT

QAD primarily develops and enhances its products through its own internal network of QAD research and development personnel. This autonomy enables QAD to maintain design and technical control of its software and technology to meet the distinct and evolving needs of our customers.

QAD's R&D organization develops new products and enhances existing products that are focused on the underlying functional areas of our application suite including financials, supply chain, manufacturing, customer management and analytics. We also focus on the foundation and technology of our applications, such as user interface and usability.

QAD develops new or enhanced product features based on extensive customer feedback. Periodically, QAD R&D teams will work jointly with customers to develop functionality that meets precise industry needs and introduces innovative capabilities to our product suite. This customer-driven development validates market requirements and accelerates product development. Our goal is to bring the right products to market at the right time to meet our customers' needs. QAD makes new product releases generally available each year in March and September.

Additionally, QAD supplements its R&D organization with a number of technology partners that support our underlying architecture or embedded technologies. We may purchase or license intellectual property as necessary. These agreements extend QAD's R&D capabilities to deliver rich, broad functionality and allow QAD and its partners to focus on their respective core competencies.

QAD operates as a global R&D organization, comprising of approximately 310 R&D employees located in QAD offices in the United States, India, China, Ireland, Australia and Belgium. Our R&D expenses totaled $34.6 million, $37.3 million and $43.1 million in fiscal years 2011, 2010 and 2009, respectively.

SALES AND MARKETING

QAD sells its products and services through direct and indirect sales channels located throughout the regions of North America, Latin America, Europe, Middle East and Africa ("EMEA"), and Asia Pacific. Each region leverages global standards and systems to enhance consistency when interacting with global customers. Additionally, we have a global strategic accounts team which is responsible for the management of QAD's largest global customers.

Our direct sales organization includes approximately 70 commissioned sales people. We continually align our sales organization and business strategies with market conditions to maintain an effective sales process. We cultivate the industries we serve within each territory through marketing, local product development and sales training.

Our indirect sales channel consists of over 40 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. We also identify global sales opportunities through our relationships with implementation service providers, hardware vendors and other third parties.

Our marketing strategy is to build the QAD brand and develop demand for our products. Our main objectives are to shape and strengthen our valuable business relationships and increase awareness and revenue-driving leads. We do this by openly and consistently communicating with QAD customers, prospects, partners, investors and other key audiences. We reach these audiences through many channels, including globally integrated marketing campaigns, which are frequently executed at the regional and local levels; media and analyst relations; customer events; Web-based communications; and sales tool development and field support.

EMPLOYEES

As of January 31, 2011, we had approximately 1,350 full-time employees, including approximately 570 in support and services, 310 in research and development, 250 in sales and marketing and 220 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.

RECAPITALIZATION

On December 14, 2010, QAD shareholders approved a Recapitalization plan (the "Recapitalization") pursuant to which the Company (i) established two classes of common stock, consisting of a new class of common stock with one-twentieth (1/20th) of a vote per share, designated as Class A common stock $0.001 par value per share (the "Class A Common Stock") and a new class of common stock with one vote per share, designated as Class B common stock $0.001 par value per share (the "Class B Common Stock"); (ii) reclassified each issued and outstanding whole share of the Company's existing $0.001 par value per share common stock (the "Existing Stock") as 0.1 shares of Class B Common Stock; and (iii) issued a dividend of four shares of Class A Common Stock for each share of Class B Common Stock outstanding after giving effect to the foregoing reclassification. The Recapitalization has the effect of a two-to-one reverse stock split.

SEGMENT REPORTING

We operate in a single reporting segment. Geographical financial information for fiscal years 2011, 2010 and 2009 is presented in Note 13 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. We are not including the information contained on our website as part of, or incorporating it by reference into, this annual report on Form 10-K.

ITEM 1A. *RISK FACTORS*

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our Class A or Class B common stock.

THE ECONOMY WILL IMPACT OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION

The Company's operations and performance are impacted by worldwide economic conditions, which are themselves impacted by other events, such as natural disasters and political turmoil. For example, recent incidents in Japan have disrupted the global supply chain and political unrest in the Middle East has increased the volatility of oil prices. Such events, as well as continued US military interventions, demonstrate that our customers' ability to find markets and purchase our products is subject to events outside our control. Ongoing uncertainty about current global economic conditions may negatively affect our business, operating results and financial condition as consumers and businesses may continue to postpone spending in response to tighter credit, high unemployment, natural disasters, political unrest and negative financial news. Uncertainty about current global economic conditions could also increase the volatility of the Company's stock price.

RISK OF FLUCTUATIONS IN REVENUE AND EXPENSE

Because of significant fluctuations in our revenue, period-to-period comparisons of our revenue or profit may not be meaningful. Our quarterly and annual operating results have fluctuated in the past and may do so in the future. Such fluctuations have resulted from the seasonality of our customers' manufacturing businesses and budget cycles and other factors. As a result, period-to-period 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 may 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 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 offerings, may involve fixed price arrangements, fixed costs and significant staffing which require us to make estimates and assumptions at the time we enter into these contracts. Variances between these estimates and assumptions and actual results could have an adverse affect on our profit margin and/or generate negative cash flow. 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 with our existing installed base of customers. Significant portions of our maintenance revenues are generated from the Company's installed base of customers. Maintenance and support agreements with these customers are traditionally renewed on an annual basis at the customer's discretion, and there is normally no requirement that a customer renew or that a customer pay new license or service fees to QAD following the initial purchase. If our existing customers do not renew their maintenance agreements or fail to purchase new user licenses or product enhancements or additional services at historical levels, our revenues and results of operations could be materially impacted.

Our maintenance renewal rate 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 plans by our customers to replace our products with competing products. 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.

Health care reform in the United States could increase the costs of maintaining our health benefit programs. Legislation addressing health care reform could have a significant ongoing impact on the costs of maintaining our employee health benefit programs and our tax liabilities, which would significantly impact our annual net income and cash flows.

We may have exposure to additional tax liabilities. As a multinational organization, we are subject to income taxes as well as non-income 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 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. We are also subject to non-income taxes, such as payroll, sales, use, value-added, net worth, property and goods and services taxes, in the United States and in various foreign jurisdictions. Audits or disputes relating to non-income taxes may result in additional liabilities that could negatively affect our operating results, cash flows and financial condition.

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;
- Changes in tax rates;
- 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.

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. 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 a customer solution that also depends on third parties. While we believe we have established a robust global support and services organization, 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/or 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 are unlikely to be able to generate revenue from alternative sources if we discover a shortfall near the end of a 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 Progress Software Corporation. 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 dependent 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.

We are dependent on other third-party suppliers. We resell certain software which we license from third parties other than Progress. 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.

Certain QAD Enterprise Applications are developed using embedded programming tools from Microsoft and Sun Microsystems (owned by our competitor Oracle) for the Microsoft.NET framework and Java Programming environments, respectively. We rely on these environments' continued compatibility with customers' desktop and server operating systems. In the event that this compatibility is limited, some of our customers may not be able to easily upgrade their QAD software. If the present method of licensing the .NET framework as part of Microsoft's Desktop Operating systems is changed and a separate price were applied to the .NET framework, our expenses could increase substantially. Similarly, if Oracle decided to charge fees or otherwise change the historical licensing terms for Java technology, our expenses could increase substantially. For both of the .Net and Java 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 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 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 confidentiality, indemnity and non-disclosure 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. 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 render existing products obsolete or unmarketable or result in delays in the purchase of those products. Significant delays 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 CUSTOMER CONTRACTS

Our success is dependent upon our proprietary technology and other intellectual property. We rely on a combination of protections provided by applicable copyright, trademark, patent and trade secret laws, as well as on confidentiality procedures and licensing arrangements, to establish and protect our rights in our software and related materials and information. We enter into licensing agreements with each of our customers and these agreements provide for the non-exclusive use of QAD Enterprise Applications. Our license contracts contain confidentiality and non-disclosure provisions, a limited warranty covering our applications and indemnification for the customer from infringement actions related to our applications.

We license our source code to our customers, which makes it possible for others 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 others to copy or modify our software for impermissible purposes. Our license agreements generally allow the use and customization 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 others 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 for infringement of 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 and other liability. While our customer agreements typically contain provisions designed to limit our exposure to product liability claims and other liability, it is possible that such provisions may not be effective under all circumstances.

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 claims 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 QAD Enterprise Applications, including modules formerly marketed under the MFG/PRO brand. 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 and related products to continue to have market acceptance 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 maintain acceptance in the marketplace, it may not yield the return on investment we expect.

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 ERP 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 are devoted to product upgrades that address new technology and 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 continued success of QAD Enterprise Applications will depend on our ability to successfully develop, enhance and globalize our 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 may 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 which may make it difficult to identify the source of problems, should they occur. Software and data security are becoming increasingly important because of regulatory restrictions on data privacy and the significant legal exposure and business disruption 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.

ON DEMAND OFFERINGS

Our revenue and profitability could suffer if we do not properly manage the risks associated with our On Demand offerings. The risks that accompany our On Demand offerings differ from those of our other offerings and include the following:

- The pricing and other terms of some of our On Demand agreements require us to make estimates and assumptions at the time we enter into these contracts that could differ from actual results. Early termination, increased costs or unanticipated delays could have an adverse affect on our profit margin and/or generate negative cash flow.

- We rely on third-party hosting and other service providers. These services may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss or interruption of these services could significantly increase our expenses and/or result in errors or a failure of our service which could harm our business.

- We manage critical customer applications, data and other confidential information through our On Demand offerings. Accordingly, we face increased exposure to significant damage claims and risk to our reputation and future business prospects in the event of system failures, inadequate disaster recovery or loss or misappropriation of customer confidential information. We may also face regulatory exposure in certain areas such as data privacy, data security and export compliance.

- The laws and regulations applicable to hosted service providers are unsettled, particularly in the areas of privacy and security and use of global resources. Changes in these laws could affect our ability to provide services from or to some locations and could increase both the costs and risks associated with providing the services.

- The market for enterprise cloud computing application services is not as mature as the market for traditional enterprise software, and it is uncertain whether these services will achieve and sustain high levels of demand and market acceptance. Our success will depend on the willingness of customers to increase their use of enterprise cloud computing application services in general, and for ERP applications in particular. Many customers have invested substantial resources to integrate traditional enterprise software into their businesses and therefore may be unwilling to migrate to an enterprise cloud computing application service. Furthermore, some enterprises may be unwilling to use enterprise cloud computing application services because they have concerns regarding security risks, international transfers of data, government or other third-party access to data, and/or use of outsourced services providers.

- We have significantly redirected the focus of our sales force, management team and other personnel toward growing our On Demand business. This redirection of resources could potentially result in the loss of sales opportunities in our traditional license, maintenance and services businesses. If our On Demand business does not grow in accordance with our expectations and we are not able to cover the shortfall with other sales opportunities, then our business could be harmed.

If any of these events were to occur, our business could be harmed. For example, customers may lose confidence in our On Demand offerings and be induced not to purchase our On Demand services, and/or our profit margin may be adversely affected, and/or we may incur liability.

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 vertical manufacturing 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 or reduced growth, that could adversely affect the demand for our products.

DEPENDENCE UPON THIRD-PARTY RELATIONSHIPS TO PROVIDE SALES, SERVICES AND MARKETING FUNCTIONS

We are dependent upon the development and maintenance of sales, services and marketing channels. We sell and support our products through direct and indirect sales, services and support organizations throughout the world. We also maintain 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. We believe this strategy allows for additional flexibility in ensuring our customers' needs for services are met in a cost effective, timely and high quality manner. Our services 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 are aware that these third-party relationships do not work exclusively with our products and in many instances these firms have similar, and often more established, relationships with our principal competitors. If these third-parties exclusively pursue products 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 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 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, though the likelihood of voting dilution is limited by the ability of the Company to use low-vote Class A common stock. Furthermore, we may incur significant debt to pay for future acquisitions or investments.

CREDIT RISK

The global financial crisis resulted in a tightening in the credit markets. The recent global credit and banking crisis caused lower levels of liquidity, increases in the rates of default and bankruptcy and extreme volatility in credit, equity and fixed income markets. Our current or potential customers may be unable to fund software purchases, which could cause them to delay, decrease or cancel purchases of our products and services or not pay us or delay paying us for previously purchased products and services.

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. We derive over half 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. Our operating results could be negatively impacted by a variety of 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;
- Natural disasters;
- 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 may be negatively affected by fluctuations in foreign currency exchange rates. Changes in the value of major foreign currencies, including the Euro, Australian dollar, British pound, Japanese yen, Mexican peso, Canadian dollar, Brazilian real and the South Africa rand relative to the United States dollar can significantly affect our revenues and operating results.

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 third parties to supply certain infrastructure related to our On Demand offerings. Although the facilities, in which we host our computer systems, and those of our infrastructure suppliers, 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

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 application software and services; (ii) conditions in the high technology and manufacturing industry sectors; (iii) general economic and business conditions; and (iv) general political developments and conflicts. A generally weak global economy could delay and/or decrease customer purchases. In addition, ongoing conflicts 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.

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, due to a potential acquisition, could have a shortened lifespan. 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 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.

THE MARKET FOR OUR STOCK IS VOLATILE

Our stock price could become more volatile and investments could lose value. The market price of our common stock and the number of shares traded each day has experienced significant fluctuations and may continue to fluctuate significantly. The market price for our common stock may be affected by a number of factors, including, but not limited to:

- Shortfalls in our expected net revenue, earnings or key performance metrics;
- Changes in recommendations or estimates by securities analysts;
- The announcement of new products by us or our competitors;
- Quarterly variations in our or our competitors' results of operations;
- A change in our dividend or stock repurchase activities;
- Developments in our industry or changes in the market for technology stocks;
- A change in our dividend or stock repurchase activities;
- Changes in rules or regulations applicable to our business; and
- Other factors, including economic instability and changes in political or market conditions.

A significant drop in our stock price could expose us to costly and time consuming litigation, which could result in substantial costs and divert management's attention and resources, resulting in an adverse affect on our business.

Our dual-class stock structure could adversely impact the market for our stock. The liquidity of the Company's common stock may be adversely impacted by our dual-class structure because the total number of shares outstanding immediately after the Recapitalization was reduced by approximately half. In addition, there are fewer Class B shares than Class A shares and Class B shares may be less desirable to the public due to the 20% higher dividend on Class A shares. Additionally, the holding of lower voting Class A common stock may not be permitted by the investment policies of certain institutional investors or may be less attractive to managers of certain institutional investors.

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 the effectiveness of internal control over financial reporting to future periods are subject to the risks that the control may become inadequate because of changes in conditions or 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, or difficulty in the implementation of, required new or improved controls, 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, for example, whether we have vendor specific objective evidence of fair value (VSOE) for all undelivered elements in the arrangement, products under development to be delivered at a future date, other services included in the arrangement and payment terms with contingencies.

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.

Impairment of intangible assets may result in charges that negatively impact our results. Under generally accepted accounting principles ("U.S. GAAP"), we review our goodwill annually and intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances, indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable, include a decline in stock price and market capitalization, reduced future cash flow estimates, and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined, negatively impacting our results of operations.

OWNERSHIP OF OUR COMMON STOCK AND DEPENDENCE UPON KEY PERSONNEL

We are controlled by our principal stockholder. As a result of a Recapitalization effective December 15, 2010, the Company established two classes of common stock. The holder of a share of Class B Common Stock is entitled to one vote on each matter presented to stockholders, whereas the holder of a share of Class A Common Stock has one-twentieth (1/20th) of one vote on each such matter. As of March 31, 2011, Karl Lopker and Pamela Lopker jointly and beneficially owned approximately 60% of the voting power of our outstanding Class A and Class B common stock. They could increase their collective voting power by purchasing additional shares of Class B Common Stock. Currently they have sufficient voting control to determine the outcome of a stockholder vote concerning:

- The election and removal of all members of our board of directors, who determine our management and policies;
- The merger, consolidation or sale of the Company or all of its assets; and
- All other matters requiring stockholder approval, regardless of how our other stockholders vote their shares.

This concentrated control limits the ability of our other stockholders to influence corporate matters. Karl Lopker's and Pamela Lopker's concentrated control could discourage others from initiating potential merger, takeover or other change of control transactions and transactions could be pursued that our other stockholders do not view as beneficial. As a result, the market price of our Class A and Class B common stock could be adversely affected.

Provisions in the Company's charter documents or Delaware law could discourage a takeover that stockholders may consider favorable. The Company's Certificate of Incorporation contains certain other provisions that may have an "anti-takeover" effect. The Certificate of Incorporation contains authority for the Board to issue up to 5,000,000 shares of preferred stock without stockholder approval. Although the Company has no present intention to issue any such shares, the Company could issue such shares in a manner that deters or seeks to prevent an unsolicited bid for the Company. The Certificate of Incorporation also does not provide for cumulative voting and, accordingly, a significant minority stockholder could not necessarily elect any designee to the Board of Directors. In addition, Section 203 of the Delaware Corporation Law may discourage, delay, or prevent a change in control of the Company by imposing certain restrictions on various business combinations. As a result of these provisions in the Company's Certificate of Incorporation and Delaware law, stockholders of the Company may be deprived of an opportunity to sell their shares at a premium over prevailing market prices and it would be more difficult to replace the directors and management of the Company.

We are a "controlled company". Karl Lopker and Pamela Lopker, as husband and wife, own a majority of our common stock and we are a "controlled company" within the meaning of NASDAQ rules. Therefore, we are not required to comply with certain corporate governance rules of NASDAQ that would otherwise apply to us as a company listed on 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 compensation committees composed of independent directors. Should the interests of Karl Lopker and Pamela Lopker differ from those of other shareholders, the other shareholders may 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 Chairman of the Board and President, Pamela Lopker, and Chief Executive Officer, Karl 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.

Our periodic workforce restructurings can be disruptive. We have in the past restructured or made other adjustments to our workforce in response to changes in the economy, management and products as well as our financial results, acquisitions and other considerations. Past restructurings have caused a temporary disruption, which can reduce employee productivity. Such disruption could occur in connection with future restructurings and our results could be negatively affected.

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 30 offices throughout the world with lease commitment expirations occurring on various dates through fiscal year 2020. QAD's leased properties include offices in the United States, Belgium, France, Germany, Ireland, Italy, Poland, South Africa, Spain, The Netherlands, United Kingdom, Australia, China, India, Japan, Singapore, Thailand, Brazil and Mexico. QAD will seek to review 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 twelve 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, subject 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. *RESERVED*

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 through December 14, 2010).

On December 14, 2010, QAD shareholders approved a Recapitalization plan (the "Recapitalization") pursuant to which the Company (i) established two classes of common stock, consisting of a new class of common stock with one-twentieth (1/20th) of a vote per share, designated as Class A common stock $0.001 par value per share (the "Class A Common Stock") and a new class of common stock with one vote per share, designated as Class B common stock $0.001 par value per share (the "Class B Common Stock"); (ii) reclassified each issued and outstanding whole share of the Company's existing $0.001 par value per share common stock (the "Existing Stock") as 0.1 shares of Class B Common Stock; and (iii) issued a dividend of four shares of Class A Common Stock for each share of Class B Common Stock outstanding after giving effect to the foregoing reclassification. The reclassification of Existing Stock into Class A Common Stock and Class B Common Stock, together, reflects the effect of a two-to-one reverse stock split.

Our Class A Common Stock and Class B Common Stock are traded on the Nasdaq Stock Market National Market System under the symbol "QADA" and "QADB", respectively. Prior to December 15, 2010, our Common Stock was traded under the symbol "QADI." The following table reflects the range of high and low sale prices of our Common Stock as reported by Nasdaq. QADI share prices have been restated to reflect the effect of the two-to-one reverse stock split for all periods presented:

	QADA		QADB	
Fiscal 2011:	Low Price	High Price	Low Price	High Price
Fourth Quarter	$ 8.44	$ 12.00	$ 8.44	$ 11.16

	QADI	
Fiscal year 2011:	Low Price	High Price
Third quarter	$ 7.92	$ 9.14
Second quarter	8.12	11.42
First quarter	9.90	11.60
Fiscal year 2010:		
Fourth quarter	$ 8.70	$ 12.62
Third quarter	7.32	10.26
Second quarter	5.64	7.74
First quarter	4.30	6.40

Holders

As of April 8, 2011, there were approximately 300 shareholders of record of our Class A common stock and approximately 250 shareholders of record of our Class B common stock. Because many of our shares of common stock are held by brokers or other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by the record holders.

Dividends

In fiscal 2011, we declared quarterly dividends of $0.05 per share of QADI common stock (as restated for the impact of the Recapitalization) for the first through third quarter, and $0.06 and $0.05 per share of Class A and Class B stock, respectively, for the fourth quarter. Our dividend program gives investors the choice of receiving a stock dividend or electing a cash dividend payment. Continuing quarterly cash dividends are subject to profitability measures, liquidity requirements of QAD and Board discretion.

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

There was no stock repurchase activity during the three or twelve months ended January 31, 2011.

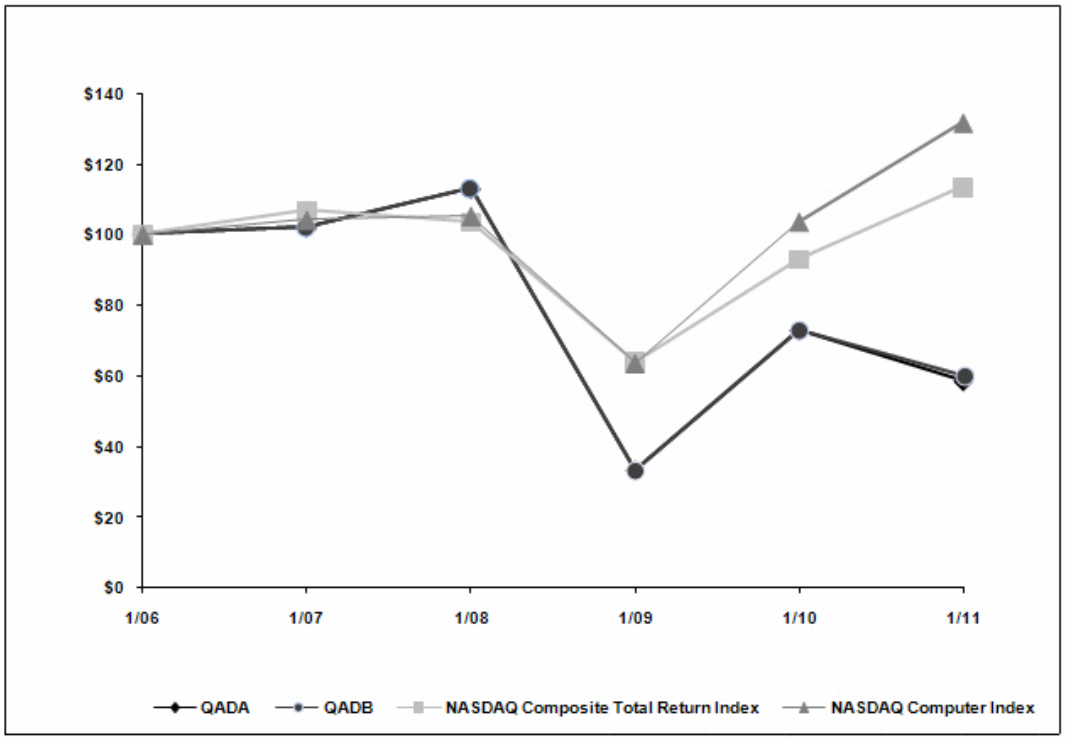
STOCKHOLDER RETURN PERFORMANCE GRAPH

The line graph below compares the annual 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 an annual basis, for the period beginning January 31, 2006 and ending January 31, 2011.

The graph assumes that $100 was invested in QAD common stock on January 31, 2006 and that all dividends were reinvested. Historic stock price performance has been restated to reflect the effect of the Recapitalization for all periods presented. Historic stock price performance should not be considered indicative of future stock price performance.

The following Share Performance Graph shall not be deemed to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filings under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

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



Measurement Periods (Annually from Fiscal Year 2007 through Fiscal Year 2011)	QADA	QADB	NASDAQ Composite Total Return Index	NASDAQ Computer Index
01/31/06(a)	100.00	100.00	100.00	100.00
01/31/07(a)	102.06	102.06	106.86	104.19
01/31/08(a)	113.00	113.00	103.64	105.28
01/31/09(a)	33.16	33.16	64.03	63.45
01/31/10(a)	72.87	72.87	93.13	103.63
01/31/11	58.33	59.93	113.50	131.70

(a) Stock price performance has been restated to reflect the effect of the Recapitalization.

ITEM 6. ***SELECTED FINANCIAL DATA***

	Years Ended January 31,(1)				
	2011	2010	2009(2)	2008	2007
	(in thousands, except per share data)				
STATEMENTS OF OPERATIONS DATA:					
Revenues:					
License fees	$ 32,446	$ 28,452	$ 46,673	$ 61,491	$ 54,425
Maintenance and other	131,162	131,142	133,080	128,183	122,740
Services	56,404	55,637	82,990	73,073	58,422
Total revenue	220,012	215,231	262,743	262,747	235,587
Operating income (loss)	6,591	2,871	(23,863)	5,588	8,137
Net income (loss)	$ 2,711	$ 1,349	$ (23,720)	$ 5,416	$ 7,276
Basic net income (loss) per share:					
Class A	$ 0.18	$ 0.09	$ (1.60)	$ 0.35	$ 0.46
Class B	$ 0.15	$ 0.08	$ (1.33)	$ 0.30	$ 0.39
Diluted net income (loss) per share:					
Class A	$ 0.17	$ 0.09	$ (1.60)	$ 0.35	$ 0.45
Class B	$ 0.14	$ 0.07	$ (1.33)	$ 0.29	$ 0.38
Dividends declared per common share:					
Class A	$ 0.21	$ 0.20	$ 0.20	$ 0.20	$ 0.20
Class B	$ 0.20	$ 0.20	$ 0.20	$ 0.20	$ 0.20
BALANCE SHEET DATA:					
Cash and equivalents	67,276	44,678	31,467	45,613	54,192
Working capital (deficit)	13,752	4,178	(3,648)	8,846	14,762
Total assets	213,094	191,174	193,745	235,893	227,132
Current portion of long-term debt	304	285	266	274	272
Long-term debt	16,138	16,443	16,717	16,998	17,271
Total stockholders' equity	56,091	49,551	47,471	72,595	76,572

(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 year 2009 includes a goodwill impairment charge of $14.4 million.

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

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. is a global provider of enterprise software applications, and related services and support. QAD provides enterprise software applications to global manufacturing companies primarily in the automotive, consumer products, food and beverage, high technology, industrial products and life sciences industries. QAD software is used by over 2,500 global manufacturing companies and we employ approximately 1,350 people worldwide. QAD was founded in 1979, incorporated in California in 1986 and reincorporated in Delaware in 1997.

QAD's enterprise resource planning ("ERP") suite is called QAD Enterprise Applications and was formerly marketed as MFG/PRO. QAD Enterprise Applications supports our global manufacturing customers' core business needs and enable their most common business processes.

QAD typically sells licenses to its software under a perpetual licensing model. Customers who purchase perpetual licenses typically deploy the application using an on premise model on their own servers. Customers under the perpetual licensing model may separately purchase contracts for maintenance and additional services. QAD also offers an on demand deployment option in which QAD hosts the application and provides support and management of the environment, and where the customers pay a subscription fee that grants them access to the environment.

Total revenue was $220.0 million in fiscal 2011, up from $215.2 million in fiscal 2010. We experienced an increase of 14% in license revenue while services revenue and maintenance and other revenue remained relatively flat. Cost of revenue as a percentage of total revenue was consistent year over year at 43% for both fiscal 2011 and fiscal 2010.

Cash flows from operations were $25.9 million for fiscal 2011, compared to $17.7 million in fiscal 2010. The increase in cash flows from operations was primarily due to lower payments for severance and higher accruals for bonuses and commissions, payroll taxes and vacation.

Toward the end of fiscal 2011, we began to see improvement in the willingness of companies to spend on enterprise application software in the markets we target as reflected in higher fourth quarter software license revenues when compared to the prior year. While there are increasing signs of economic recovery throughout the world, we continue to monitor the economic situation and business environment. We have focused on maintaining financial strength by preserving a strong balance sheet including increasing our cash balance and managing our costs. Our strategy remains focused on the development and delivery of best-in-class software applications for the manufacturing industry in our six key industry segments.

On December 14, 2010, QAD shareholders approved a Recapitalization plan (the “Recapitalization”) pursuant to which the Company (i) established two classes of common stock, consisting of a new class of common stock with one-twentieth (1/20th) of a vote per share, designated as Class A common stock $0.001 par value per share (the "Class A Common Stock") and a new class of common stock with one vote per share, designated as Class B common stock $0.001 par value per share (the "Class B Common Stock"); (ii) reclassified each issued and outstanding whole share of the Company's existing $0.001 par value per share common stock (the "Existing Stock") as 0.1 shares of Class B Common Stock; and (iii) issued a dividend of four shares of Class A Common Stock for each share of Class B Common Stock outstanding after giving effect to the foregoing reclassification. The reclassification of Existing Stock into Class A Common Stock and Class B Common Stock, together, reflects the effect of a two-to-one reverse stock split.

CRITICAL ACCOUNTING POLICIES

We consider certain accounting policies related to revenue recognition, accounts receivable allowances for doubtful accounts, long-lived assets, goodwill, capitalized software development costs, valuation of deferred tax assets, tax contingency reserves and stock-based compensation 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 derive our revenues from the sale or the license of our software products and from support services, subscriptions, consulting, development, training, and other professional services. The majority of our software is sold or licensed in multiple-element arrangements that include support services and often consulting services or other elements. As a result, we exercise judgment and use estimates in connection with the amount and timing of revenue recognition. For software license arrangements that do not require significant modification or customization of the underlying software, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. A majority of our license revenue is recognized in this manner. Revenue is presented net of sales, use and value-added taxes collected from our customers.

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. Should we grant payment terms greater than one year or terms that are not in accordance with our established history for similar arrangements, we would recognize revenue as payments become due and payable assuming all other criteria for software revenue recognition requirements have been met.

Provided all other revenue recognition criteria have been met, we recognize license revenue on delivery using the residual method when vendor-specific objective evidence of fair value (“VSOE”) exists for all of the undelivered elements (for example, support services, consulting, or other services) in the arrangement. We allocate revenue to each undelivered element based on VSOE, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by our management if it is probable that the price will not change before the element is sold separately. We allocate revenue to undelivered support services based on rates charged to renew the support services annually after an initial period. We allocate revenue to undelivered consulting services based on time and materials rates of stand-alone services engagements by role and by country. We review our VSOE at least annually. If we were to be unable to establish or maintain VSOE for one or more undelivered elements within a multiple-element arrangement, it could adversely impact our revenues, results of operations and financial position because we may have to defer all or a portion of the revenue or recognize revenue ratably from multiple-element arrangements.

Multiple element arrangements for which VSOE does not exist for all undelivered elements typically occur when we introduce a new product or product bundles for which we have not established VSOE for support services or consulting or other services under our VSOE policy. In these instances, revenue is deferred and recognized ratably over the longer of the support services (maintenance period) or consulting services engagement, assuming there are no specified future deliverables. In the instances in which it has been determined that revenue on these bundled arrangements will be recognized ratably due to lack of VSOE, at the time of recognition, we allocate revenue from these bundled arrangement fees to all of the non-license revenue categories based on VSOE of similar support services or consulting services. The remaining arrangement fees, if any, are then allocated to software license fee revenue. The associated costs primarily consist of payroll and related costs to perform both the consulting services and provide support services and royalty expense related to the license and maintenance revenue. These costs are expensed as incurred and included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

Revenue from support services and product updates, referred to as maintenance revenue, 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. A majority of our customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of our customers renew their product support services contracts annually.

Revenues from consulting services are typically comprised of implementation, development, training or other consulting services. Consulting services are generally sold on a time-and-materials basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. Consulting engagements can range anywhere from one day to several months and are based strictly on the customer's requirements and complexities and are independent of the functionality of our software. Our software, as delivered, can generally be used by the customer for the customer's purpose upon installation. Further, implementation and integration services provided are generally not essential to the functionality of the software, as delivered, and do not result in any material changes to the underlying software code. On occasion, we enter into fixed fee arrangements in which customer payments are tied to achievement of specific milestones. In fixed fee arrangements, revenue is recognized as services are performed as measured by hours incurred to date, as compared to total estimated hours to be incurred to complete the work. In milestone achievement arrangements, we recognize revenue as the respective milestones are achieved.

Revenue from our subscription product offerings, including our On Demand products, 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 using the residual method.

Occasionally we resell third party systems as part of an end-to-end solution requested by our customers. Hardware revenue is recognized on a gross basis when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. We consider delivery to occur when the product is shipped and title and risk of loss have passed to the customer.

Although infrequent, 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. Arrangements that do not qualify for separate accounting of the software license fee and consulting services typically occur when we are requested to customize software or where we view the installation of our software as high risk in the customer's environment. This requires us to make estimates about the total cost to complete the project and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenues and expenses reported. Changes in estimates of progress toward completion and of contract revenues and contract costs are accounted for using the cumulative catch up approach. In these arrangements, we do not have a sufficient basis to estimate the costs of providing support services. As a result, revenue is typically recognized on a percent completion basis up to the amount of costs incurred (zero margin). Once the consulting services are complete and support services are the only undelivered item, the remaining revenue is recognized evenly over the remaining support period. If we do not have a sufficient basis to measure the progress of completion or to estimate the total contract revenues and costs, revenue is recognized when the project is complete and, if applicable, final acceptance is received from the customer. We allocate these bundled arrangement fees to support services and consulting services revenues based on VSOE. The remaining arrangement fees are then allocated to software license fee revenues. The associated costs primarily consist of payroll and related costs to perform the consulting and support services and royalty expense and are included in cost of license, maintenance, services and other based on the allocation of the related revenues.

We execute arrangements through indirect sales channels via sales agents and distributors in which the indirect sales channels are authorized to market our software products to end users. In arrangements with sales agents, revenue is recognized on a sell-through basis once an order is received from the end user, collectability from the end user is probable, a signed license agreement from the end user has been received by us, delivery has been made to the end user and all other revenue recognition criteria have been satisfied. Sales agents are compensated on a commission basis. Distributor arrangements are those in which the resellers are authorized to market and distribute our software products to end users in specified territories and the distributor bears the risk of collection from the end user customer. We recognize revenue from transactions with distributors when the distributor submits a written purchase commitment, collectability from the distributor is probable, a signed license agreement is received from the distributor and delivery has occurred to the distributor, provided that all other revenue recognition criteria have been satisfied. Revenue for distributor transactions is recorded on a net basis (the amount actually received by us from the distributor). We do not offer rights of return, product rotation or price protection to any of our distributors.

Allowance for Bad Debt. Trade accounts receivable are recorded at the invoiced amount and do not bear interest. We review the collectability 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 inability of the customers to pay. We also provide for a general reserve based on historical data including analysis of write-offs and other known factors. Provisions to the allowance for bad debt are included as bad debt expense in general and administrative expense. Significant judgment is required in adjusting our receivables to amounts we believe are realizable, especially when a customer is experiencing financial difficulty or is in bankruptcy. Although we use the best information available in making our estimates, we may incur additional bad debt expense in future periods which could have a material effect on earnings in any given quarter should additional allowances for doubtful accounts be necessary. The determination to write-off specific accounts receivable balances is made based on likelihood of collection and past due status. Past due status is based on invoice date and terms specific to each customer.

Allowances forSales Returns. We do not generally provide a contractual right of return; however, in the course of business we have allowed sales returns and allowances. We record a provision against revenue for estimated sales returns and allowances in the same period the related revenues are recorded or when current information indicates additional amounts are required. These estimates are based on historical experience, specifically identified customers and other known factors. Although we use the best information available in making our estimates, we may incur additional provisions against revenue in future periods which could have a material effect on earnings in any given quarter should additional allowances for sales returns be necessary.

The accounts receivable allowance for doubtful accounts is comprised of both the allowance for bad debts and the allowance for sales returns.

Long-Lived Assets. Our long-lived assets generally consist of property and equipment and intangible assets, other than goodwill. Other intangible assets arise from business combinations and generally consist of customer relationships, restrictive covenants related to employment agreements, trade names and intellectual property that are amortized, on a straight-line basis, generally over periods of up to five years. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation. We assess the realizability of our long-lived assets whenever events or changes in circumstances indicate the carrying values of such assets may not be recoverable. We consider the following factors important in determining when to perform an impairment review: significant under-performance of a product relative to budget; shifts in business strategies which affect the continued uses of the assets; significant negative industry or economic trends; and the results of past impairment reviews.

In assessing the recoverability of these long-lived assets, we first compare undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value of the assets or asset groups is determined through various valuation techniques including discounted cash flow models, quoted market values and independent third party appraisals, as considered necessary. In addition to our recoverability assessments, we routinely review the remaining estimated useful lives of our long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the quarter when such determinations are made, as well as in subsequent quarters.

We will continue to evaluate the values of our long-lived assets in accordance with applicable accounting rules. As changes in business conditions and our assumptions occur, we may be required to record impairment charges.

Goodwill. We test goodwill for impairment annually in our fourth fiscal quarter or sooner should events or changes in circumstances indicate potential impairment.

We review the carrying value of goodwill using the methodology prescribed in FASB Accounting Standards Codification (ASC) 350 “Intangibles—Goodwill and Other”. ASC 350 requires that we not amortize goodwill, but instead subject it to impairment tests on at least an annual basis and whenever circumstances suggest that it may be impaired. These impairment tests are also dependent on management’s forecasts, which are subject to change. A change in our forecasts may result in impairment charges. We perform a two-step impairment test. Under the first step of the goodwill impairment test, we are required to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and we do not perform the second step. If the results of the first step impairment test indicate that the fair value of a reporting unit does not exceed its carrying amount, then the second step of the goodwill impairment test is required. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The impairment loss is measured by the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill.

Management evaluates the Company as a single reporting unit for business and operating purposes as almost all of QAD’s revenue streams are generated by the same underlying technology whether acquired, purchased or developed. In addition, the majority of QAD’s costs are, by their nature, shared costs that are not specifically identifiable to a geography or product line but relate to almost all products. As a result, there is a high degree of interdependency among QAD’s revenues and cash flows for levels below the consolidated entity and identifiable cash flows for a reporting unit separate from the consolidated entity are not meaningful. Therefore, our impairment test considered the consolidated entity as a single reporting unit.

During the fourth quarter of fiscal 2011 and 2010, an impairment analysis was performed at the enterprise level which compared the Company's market capitalization to its net assets as of the test date, November 30th. As the market capitalization substantially exceeded the Company's net assets, there was no indication of goodwill impairment for fiscal 2011 and 2010.

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 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. We periodically compare 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 is reported as a charge to the statement of operations. This review requires management judgment regarding future cash flows. If these estimates or their related assumptions require updating in the future, we may incur substantial losses due to the write-down or write-off of these assets.

Valuation of Deferred Tax Assets and Tax Contingency Reserves. The carrying value of our deferred tax assets reflects an amount that is more likely than not to be realized. At January 31, 2011, QAD had $27.9 million of deferred tax assets, net of valuation allowances, consisting of $38.5 million of gross deferred tax assets offset by valuation allowances of $10.6 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 increase of valuation allowances recorded in fiscal 2011 of $1.0 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.

We are subject to income taxes in the U.S. and in various foreign jurisdictions, and in the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. 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 as the largest amount of benefit that has a greater than 50% likelihood of being realized when it is ultimately settled. 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 are appropriate. The tax reserves are reviewed on a quarterly basis and adjusted as events occur that affect our potential liability for additional taxes.

Stock-Based Compensation. We account for share-based payments ("equity awards") to employees in accordance with ASC 718, Compensation—Stock Compensation ("ASC 718"), which requires that share-based payments (to the extent they are compensatory) be recognized in our consolidated statements of operations based on their fair values as measured at the grant date. The fair value of an equity award is recognized as stock-based compensation expense ratably over the vesting period of the equity award. Determining the fair value of stock-based awards at the grant date requires judgment and the fair value per share of historical grants of equity awards may not be indicative of the fair value per share for future grants of equity awards.

Fair Value of SARs

The fair value of stock-settled stock appreciation rights ("SARs") is determined on the grant date of the award using the Black-Scholes-Merton valuation model. One of the inputs to the Black-Scholes-Merton valuation model is the fair market value on the date of the grant. As our stock price fluctuates, so does the fair value of our future SAR grants. Judgment is required in determining the remaining inputs to the Black-Scholes-Merton valuation model. Furthermore, the values underlying these inputs fluctuate which impacts the fair value of our future SAR grants. These inputs include the expected life, volatility, the risk free interest rate and the dividend rate. The following describes our policies with respect to determining these valuation inputs:

Expected Life
The expected life valuation input includes a computation that is based on historical vested option and SAR exercise and post-vest expiration patterns and an estimate of the expected life for options and SARs that were fully vested and outstanding. Furthermore, based on our historical pattern of option and SAR exercises and post-vest expiration patterns we determined that there are two discernable populations which include QAD's directors and officers ("D&O") and all other QAD employees. The estimate of the expected life for options and SARs that were fully vested and outstanding was determined as the midpoint of a range as follows: the low end of the range assumes the fully vested and outstanding options and SARs are exercised or expire unexercised on the evaluation date and the high end of the range assumes that these options and SARs are exercised or expire unexercised upon contractual term.

Volatility
The volatility valuation input is based on the historical volatility of our common stock, which we believe is representative of the expected volatility over the expected life of SARs.

Risk Free Interest Rate
The risk free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

Dividend Rate
The dividend rate based on our historical dividend payments per share. Historically, the Company paid quarterly dividends at a rate of $0.05 per common share.

Fair Value of RSUs

The fair value of restricted stock units ("RSUs") is determined on the grant date of the award as the market price of the Company's common stock on the date of grant, reduced by the present value of estimated dividends foregone during the vesting period. As our stock price fluctuates, so does the fair value of our future RSU grants. Judgment is required in determining the present value of estimated dividends foregone during the vesting period. We estimate the dividends for purposes of this calculation based on our historical dividend payments per share. Historically, the Company paid quarterly dividends at a rate of $0.05 per common share.

While we recognize as stock-based compensation expense the entire amount of the fair value of a vested equity award once it has vested, during the periods in which our equity awards are vesting, we are required to estimate equity awards that we expect will cancel prior to vesting ("forfeitures") and reduce the stock-based compensation expense recognized in a given period for the effects of estimated forfeitures over the expense recognition period ("forfeiture rate"). To determine the forfeiture rate, we examine the historical pattern of forfeitures which we believe is indicative of future forfeitures in an effort to determine if there were any discernable forfeiture patterns based on certain employee populations. From this analysis, we identified two employee populations that have different historical forfeiture rates. One population includes QAD directors and officers ("D&O") and the other population includes all other QAD employees. The impact of actual forfeitures if significantly different than our estimated forfeitures could materially affect our operating results. We evaluate the forfeiture rate annually or more frequently when there have been any significant changes in forfeiture activity.

We record deferred tax assets for equity awards that result in deductions on our income tax returns, based on the amount of stock-based compensation recognized and the fair values attributable to the vested portion of those equity awards. Because the deferred tax assets we record are based upon the stock-based compensation expenses in a particular jurisdiction, the aforementioned inputs that affect the fair values of our equity awards may also indirectly affect our income tax expense. In addition, differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on our income tax returns are recorded in additional paid-in capital. If the tax deduction is less than the deferred tax asset, the calculated shortfall reduces our pool of excess tax benefits. If the pool of excess tax benefits is reduced to zero, then subsequent shortfalls would increase our income tax expense. Our pool of excess tax benefits is computed in accordance with the alternative transition method pursuant to ASC 718.

To the extent we change the terms of our employee stock-based compensation programs, experience fluctuations in the underlying criteria used to determine our equity award valuations and experience fluctuations in our patterns of forfeitures that differ from our current estimates, amongst other potential impacts, the stock-based compensation expense that we record in future periods and the tax benefits that we realize may differ significantly from what we have recorded in previous reporting periods.

RECENTLY ISSUED ACCOUNTING STANDARDS

For a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, 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.

RESULTS OF OPERATIONS

We operate in several geographical regions as described in Note 13 "Business Segment Information" within the Notes to Consolidated Financial Statements. In order to present our results of operations without the effects of changes in foreign currency, we provide certain financial information on a "constant currency basis", which is in addition to the actual financial information presented in the following tables. In order to calculate our constant currency results, we apply the foreign currency exchange rates that were in effect during the prior year to the current year results.

Revenue

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
Revenue:							
License fees	$ 32,446	$ 3,994	14%	$ 28,452	$ (18,221)	-39%	$ 46,673
Percentage of total revenue	15%			13%			18%
Maintenance and other	131,162	20	0%	131,142	(1,938)	-1%	133,080
Percentage of total revenue	60%			61%			51%
Services	56,404	767	1%	55,637	(27,353)	-33%	82,990
Percentage of total revenue	25%			26%			31%
Total revenue	$ 220,012	$ 4,781	2%	$ 215,231	$ (47,512)	-18%	$ 262,743

Comparison of fiscal 2011 revenue to fiscal 2010

Total revenue for fiscal 2011 was $220.0 million, representing an increase of $4.8 million, or 2%, from $215.2 million in fiscal 2010. Most of the increase in total revenue during fiscal 2011 compared to fiscal 2010 occurred in the fourth quarter of fiscal 2011. 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 those prevailing in fiscal 2010, total revenue for the current year would have been approximately $218.3 million, representing an increase of $3.1 million, or 1%, when compared to last year. When comparing categories within total revenue at constant rates, our current results included an increase in the license revenue category, a slight decrease in the maintenance and other revenue category and no change to our services revenue category. Revenue outside the North America region as a percentage of total revenue was consistent at 57% for fiscal 2011 and fiscal 2010. Total revenue increased in our North America, Latin America and Asia Pacific regions, and was offset by a slight decrease in our EMEA region in fiscal 2011 when compared to fiscal 2010. Our products are sold to manufacturing companies that operate mainly in the following six industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences. Given the similarities between food and beverage and consumer products as well as between high technology and industrial products, we aggregate them for management review. Our fiscal 2011 revenue by industry was approximately 24% in automotive, 23% in consumer products and food and beverage, 39% in high technology and industrial products and 14% in life sciences. This compares to revenue by industry in fiscal 2010 of 26% in automotive, 24% in consumer products and food and beverage, 37% in high technology and industrial products and 13% in life sciences.

License revenue was $32.4 million for fiscal 2011, representing an increase of $3.9 million, or 14%, from $28.5 million in fiscal 2010. We believe that the increase in license revenue can be attributed to our customers experiencing an increase in demand for their products and as a result our customers are increasing production and using additional licenses. Holding foreign currency exchange rates constant to those prevailing in fiscal 2010, license revenue for fiscal 2011 would have remained consistent at approximately $32.4 million, representing a $3.9 million, or 14%, increase from last year. We experienced increases in our North America, Latin America and EMEA regions, and a slight decrease in our Asia Pacific 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 2011, 12 customers placed license orders totaling more than $0.3 million, two of which exceeded $1.0 million. In comparison, during fiscal 2010, 13 customers placed license orders totaling more than $0.3 million, two of which exceeded $1.0 million. Although there were a relatively consistent number of orders totaling more than $0.3 million during fiscal 2011 and 2010, our total license revenue increased year over year due to higher revenue deferrals in fiscal 2010 on orders greater than $0.3 million. In addition, we generated more license revenue from orders less than $0.3 million in fiscal 2011 than in fiscal 2010.

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. Our total short-term deferred revenue as of January 31, 2011 was $94.5 million, of which $81.2 million was related to deferred maintenance and other and will be recognized over the period of the maintenance support. Of the remaining short-term deferred revenue balance as of January 31, 2011, $4.7 million was related to deferred services, $3.2 million was related to deferred research and development funding, $3.1 million was related to deferred licenses and $2.3 million was related to deferred subscriptions. All of these balances, with the exception of deferred subscriptions, relate to products already shipped or services already provided but were deferred primarily due to software revenue recognition rules and will generally be recognized within the next twelve months. Deferred subscription primarily relates to hosting and On Demand services we will provide over periods up to the next twelve months.

Maintenance and other revenue was $131.2 million for fiscal 2011, relatively unchanged from last year. Holding foreign currency exchange rates constant to those prevailing in fiscal 2010, maintenance and other revenue for fiscal 2011 would have been approximately $130.1 million, representing a decrease of $1.0 million, or 1%, from last year. When comparing fiscal 2011 to fiscal 2010, maintenance and other revenue decreased in our North America, EMEA and Latin America regions offset by an increase in our Asia Pacific region. We track our rate of contract renewals by determining the number of customer sites with active contracts as of the end of the previous reporting period and compare this to the number of customers that renewed, or are in the process of renewing, their maintenance contract as of the current period end. Our maintenance contract renewal rate has remained consistent, in excess of 90% for fiscal years 2011, 2010 and 2009.

Services revenue was $56.4 million for fiscal 2011, representing an increase of $0.8 million, or 1%, when compared to services revenue of $55.6 million earned in the same period last year. Holding exchange rates constant to those prevailing during the prior year period, services revenue for fiscal 2011 would have been approximately $55.8 million, relatively unchanged from last year. When comparing fiscal 2011 to fiscal 2010, we experienced increases in our Asia Pacific and Latin America regions offset by decreases in our North America and EMEA regions.

Comparison of fiscal 2010 revenue to fiscal 2009

Total revenue for fiscal 2010 was $215.2 million, a decrease of $47.5 million, or 18%, from $262.7 million in fiscal 2009. Holding foreign currency exchange rates constant to those prevailing in fiscal 2009, total revenue for fiscal 2010 would have been approximately $219.9 million, or $42.8 million lower when compared to fiscal 2009. When comparing categories within total revenue at constant rates, our fiscal 2010 results included a decrease in the license and services revenue categories partially offset by an increase in the maintenance and other revenue category. Revenue outside the North America region as a percentage of total revenue was relatively consistent at 57% and 56% for fiscal 2010 and fiscal 2009, respectively. Total revenue decreased across all our geographic regions in fiscal 2010 compared to fiscal 2009. Our fiscal 2010 revenue by industry was approximately 26% in automotive, 24% in consumer products and food and beverage, 37% in high technology and industrial products and 13% in life sciences. This compares to revenue by industry in fiscal 2009 of 31% in automotive, 23% in consumer products and food and beverage, 35% in high technology and industrial products and 11% in life sciences. The decrease in the automotive vertical can be attributed primarily to a decline in revenue from the U.S. automotive suppliers during fiscal 2010.

License revenue was $28.5 million for fiscal 2010, down $18.2 million, or 39%, from $46.7 million in fiscal 2009. We believe significant declines in demand for our customers' products generally resulted in a preservation of capital as well as delays in license purchasing decisions by our customers. This was especially true in the automotive sector, which represents approximately a quarter of our business. Holding foreign currency exchange rates constant to those prevailing in fiscal 2009, license revenue for fiscal 2010 would have been approximately $28.7 million, representing an $18.0 million, or 39%, decrease from fiscal 2009. We experienced decreases in license revenue in all of our geographic regions. During fiscal 2010, 13 customers placed license orders totaling more than $0.3 million, two of which exceeded $1.0 million. In comparison, during fiscal 2009, 33 customers placed license orders totaling more than $0.3 million, five of which exceeded $1.0 million.

Our total short-term deferred revenue as of January 31, 2010 was $85.7 million, of which $76.3 million was related to deferred maintenance and was recognized over the period of the maintenance support. Of the remaining short-term deferred revenue balance as of January 31, 2010, $3.1 million was related to deferred research and development funding, $2.9 million was related to deferred licenses, $1.8 million was related to deferred services and $1.5 million was related to deferred subscriptions. All of these balances, with the exception of deferred subscriptions, related to products already shipped or services already provided but were deferred primarily due to software revenue recognition rules and were recognized within the following twelve months. Deferred subscription primarily related to hosting and On Demand services that we provided over periods up to the following twelve months.

Maintenance and other revenue was $131.1 million for fiscal 2010, representing a decrease of $1.9 million, or 1%, from $133.1 million in fiscal 2009. Holding foreign currency exchange rates constant to those prevailing in fiscal 2009, maintenance and other revenue for fiscal 2010 would have been approximately $133.4 million, representing an increase of $0.3 million, or less than 1%, from the preceding year. When comparing fiscal 2010 to fiscal 2009, maintenance and other revenue decreased across all our geographic regions except for the Asia Pacific region.

Services revenue was $55.6 million for fiscal 2010, representing a decrease of $27.4 million, or 33%, when compared to services revenue of $83.0 million earned in fiscal 2009. Holding exchange rates constant to those prevailing during fiscal 2009, services revenue for fiscal 2010 would have been approximately $57.8 million, reflecting a $25.2 million, or 30%, decrease from the preceding year. When comparing fiscal 2010 to fiscal 2009, services revenue decreased across all our geographic regions. The decrease in services revenue year over year was primarily attributed to a large engagement in the automotive sector that was scaled back in the fourth quarter of fiscal 2009 as well as engagements in which we were recognizing a lower amount of services revenue per customer per quarter, which we believe was a result of lower license revenue over the recent quarters and customer decisions to extend or delay their implementations, upgrades or other ongoing services projects.

Comparison of costs and expenses—fiscal 2011, 2010, and 2009

Restructuring

In response to the difficult economic environment, we took steps to reduce headcount and lower expenses beginning in the fourth quarter of fiscal 2009 and again in the second and third quarters of fiscal 2010. Related to these restructuring initiatives we reduced headcount by 260 full-time positions, or approximately 15% of the workforce, and incurred costs related to employee severance and benefits of $6.5 million. We have not incurred any additional restructuring charges in fiscal 2011 and as of January 31, 2011, all plans are complete.

Restructuring charges included in our Consolidated Statements of Operations for the fiscal years ended January 31, 2010 and 2009 were as follows:

	Years Ended January 31,	
	2010	2009
	(in thousands)	
Cost of maintenance, services and other revenue	$ 1,054	$ 854
Sales and marketing	1,113	1,607
Research and development	633	590
General and administrative	316	300
Total restructuring charges	$ 3,116	$ 3,351

Restructuring Accruals

The activity in the restructuring accrual for the fiscal years ended January 31, 2011, 2010 and 2009 is summarized as follows:

	Q4 Fiscal 2009 Restructuring Plan	Q2 Fiscal 2010 Restructuring Plan	Q3 Fiscal 2010 Restructuring Plan	Total
	(in thousands)			
Balance as of January 31, 2008	$ -	$ -	$ -	$ -
Employee severance pay and related expenses	3,351	-	-	3,351
Cash paid	(479)	-	-	(479)
Balance as of January 31, 2009	$ 2,872	$ -	$ -	$ 2,872
Employee severance pay and related expenses	819	1,496	927	3,242
Cash paid	(3,526)	(1,456)	(930)	(5,912)
(Reversal of) adjustment to previous charges	(92)	(43)	9	(126)
Impact of foreign currency translation	24	3	-	27
Balance as of January 31, 2010	$ 97	$ -	$ 6	$ 103
Cash paid	(93)	-	(6)	(99)
Impact of foreign currency translation	(4)	-	-	(4)
Balance as of January 31, 2011	$ -	$ -	$ -	$ -

Total Cost of Revenue

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
Cost of revenue							
Cost of license fees	$ 5,698	$ (1,243)	-18%	$ 6,941	$ (2,811)	-29%	$ 9,752
Cost of maintenance, services and other	88,250	3,564	4%	84,686	(27,133)	-24%	111,819
Total cost revenue	$ 93,948	$ 2,321	3%	$ 91,627	$ (29,944)	-25%	$ 121,571
Percentage of revenue	43%			43%			46%

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

Total cost of revenue (combined cost of license fees and cost of maintenance, services and other revenue) was $93.9 million for fiscal 2011, $91.6 million for fiscal 2010 and $121.6 million for fiscal 2009, and as a percentage of total revenue was 43% for fiscal 2011, 43% for fiscal 2010 and 46% for fiscal 2009. Holding exchange rates constant to those prevailing in fiscal 2010, total cost of revenue for fiscal 2011 would have been approximately $93.3 million and as a percentage of total revenue would have been unchanged at 43%.

The non-currency related increase in cost of maintenance, services and other revenue was $3.0 million in fiscal 2011 compared to fiscal 2010. The increase was primarily due to higher services costs of $2.7 million related to higher third party contractor costs of $1.8 million, higher services bonuses of $1.5 million, higher travel of $0.7 million and higher hosting costs of $0.6 million partially offset by lower information technology and facilities allocated costs of $1.0 million, lower severance of $0.5 million, lower services personnel costs of $0.2 million and lower professional fees of $0.2 million. We expect our services personnel costs will increase in future periods as headcount increased during the fourth quarter of fiscal 2011 and as of January 31, 2011 we had approximately 400 full-time services employees as compared to approximately 350 at January 31, 2010. The combination of personnel and third party contractor costs typically fluctuate in accordance with increases or decreases in services revenue.

The non-currency related decrease in cost of license fees was $1.3 million in fiscal 2011 compared to fiscal 2010. The decrease was primarily a result of lower amortization of acquired software.

Total cost of revenue (combined cost of license fees and cost of maintenance, services and other revenue) was $91.6 million for fiscal 2010 and $121.6 million for fiscal 2009, and as a percentage of total revenue was 43% for fiscal 2010 and 46% for fiscal 2009. Holding exchange rates constant to those prevailing in fiscal 2009, total cost of revenue for fiscal 2010 would have been approximately $94.5 million and as a percentage of total revenue would have been unchanged at 43%. Changes in the cost of revenue as a percentage of total revenue were primarily due to lower services revenue in the overall revenue mix. Services revenue has higher associated direct costs, such as personnel costs, than the other revenue categories.

The non-currency related decrease in cost of revenue of $27.1 million in fiscal 2010 compared to fiscal 2009 was primarily due to lower services personnel costs of $9.7 million primarily as a result of lower headcount of approximately 120 people, lower third party contractor expense of $7.6 million and lower travel expense of $5.2 million. In addition, the cost of license fees decreased by $2.7 million in fiscal 2010 compared to fiscal 2009 primarily as a result of lower royalty expense due to lower license revenue.

Sales and Marketing

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
Sales and marketing	$ 54,206	$ 2,227	4%	$ 51,979	$ (21,046)	-29%	$ 73,025
Percentage of revenue	25%			24%			28%

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

Sales and marketing expense was $54.2 million, $52.0 million and $73.0 million for fiscal years 2011, 2010 and 2009, respectively. Holding foreign currency exchange rates constant to fiscal 2010, fiscal 2011 sales and marketing expense would have been approximately $53.7 million, representing an increase of $1.7 million, or 3%. The non-currency related increase in sales and marketing expense of $1.7 million in fiscal 2011 compared to fiscal 2010 was primarily due to higher bonuses of $1.1 million, higher travel of $0.6 million, higher commissions of $0.5 million and higher marketing expense of $0.3 million. These increases in sales and marketing expense were partially offset by lower severance of $0.9 million.

Holding foreign currency exchange rates constant to fiscal 2009, fiscal 2010 sales and marketing expense would have been approximately $53.5 million, representing a decrease of $19.5 million, or 27%. The non-currency related decrease in sales and marketing expense of $19.5 million in fiscal 2010 compared to fiscal 2009 was primarily due to lower personnel costs of $10.7 million primarily related to lower salaries, bonuses and commissions as a result of approximately 80 fewer employees, lower travel expense of $2.4 million, lower marketing expense of $1.1 million, lower professional fees of $0.7 million, lower stock compensation expense of $0.5 million, lower expenses associated with our internal sales workshop event of $0.3 million and lower sales agent fees of $0.3 million. In addition, in fiscal 2010 we did not hold our annual Explore customer event. This resulted in $1.7 million of cost savings when compared to fiscal 2009.

Research and Development

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	$ %	Year Ended January 31, 2009
Research and development	$ 34,575	$ (2,728)	-7%	$ 37,303	$ (5,804)	-13%	$ 43,107
Percentage of revenue	16%			17%			17%

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

Research and development expense was $34.6 million, $37.3 million and $43.1 million for fiscal years 2011, 2010 and 2009, respectively. Holding foreign currency exchange rates constant to fiscal 2010, fiscal 2011 research and development expense would have been approximately $34.4 million, representing a decrease of $2.9 million, or 8%. The non-currency related decrease in research and development expense of $2.9 million in fiscal 2011 compared to fiscal 2010 was primarily due to higher joint development income of $2.0 million related to two ongoing projects, lower research and development consulting fees of $0.7 million, lower information technology and facilities allocated costs of $0.6 million and lower severance of $0.5 million. These decreases in research and development expense were partially offset by higher bonuses of $0.6 million.

Holding foreign currency exchange rates constant to fiscal 2009, fiscal 2010 research and development expense would have been approximately $38.0 million, representing a decrease of $5.1 million, or 12%. The non-currency related decrease in research and development expense of $5.1 million in fiscal 2010 compared to fiscal 2009 was primarily due to a decrease in personnel costs of $4.0 million related to lower salaries and bonuses as a result of 25 fewer employees and lower travel expense of $0.9 million. These decreases in research and development expense were partially offset by lower joint development income of $0.6 million.

General and Administrative

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
General and administrative	$ 30,637	$ (332)	-1%	$ 30,969	$ (2,794)	-8%	$ 33,763
Percentage of revenue	14%			14%			13%

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

General and administrative expense was $30.6 million, $31.0 million and $33.8 million for fiscal years 2011, 2010 and 2009, respectively. Holding foreign currency exchange rates constant to fiscal 2010, fiscal 2011 general and administrative expense would have been approximately $30.4 million, representing a decrease of $0.6 million, or 2%. The non-currency related decrease in general and administrative expense of $0.6 million in fiscal 2011 compared to fiscal 2010 was primarily due to lower bad debt of $1.5 million partially offset by higher bonuses of $0.9 million.

Holding foreign currency exchange rates constant to fiscal 2009, fiscal 2010 general and administrative expense would have been approximately $31.7 million, representing a decrease of $2.1 million, or 6%. The non-currency related decrease in general and administrative expense of $2.1 million in fiscal 2010 compared to fiscal 2009 was primarily due to lower personnel costs of $1.1 million as a result of lower headcount of approximately 10 people and lower travel expense of $0.7 million. These decreases in general and administrative expense were partially offset by higher bad debt expense of $0.6 million.

Amortization of Intangibles from Acquisitions

Amortization of intangibles from acquisitions totaled $0.1 million, $0.5 million and $0.7 million for fiscal years 2011, 2010 and 2009, respectively. Amortization expense in each of the three years was due to the intangible assets acquired in fiscal 2009 from our FullTilt acquisition and in fiscal 2007 from our acquisitions of Precision, FBOS and Bisgen Ltd. (“Bisgen”). Amortization decreased in fiscal 2011 compared to fiscal 2010 and 2009 due to the majority of our acquired intangibles being fully amortized by the end of the fiscal 2010 third quarter.

Goodwill Impairment Charge

We assess goodwill for impairment at least annually, or more frequently if indicators of impairment exist. Our annual impairment review is conducted during the fourth quarter of each fiscal year. No impairment was determined in fiscal 2011 or 2010. As a result of our fiscal 2009 annual impairment review, we recorded a goodwill impairment charge of $14.4 million, related to the former EMEA reporting unit, due to declines in revenue and cash flow projections.

Total Other (Income) Expense

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
Other (income) expense							
Interest income	$ (515)	$ 55	10%	$ (570)	$ 863	60%	$ (1,433)
Interest expense	1,248	(25)	-2%	1,273	28	2%	1,245
Other (income) expense, net	304	593	205%	(289)	(45)	-18%	(244)
Total other (income) expense	$ 1,037	$ 623	150%	$ 414	$ 846	196%	$ (432)
Percentage of revenue	0%			0%			0%

Total other (income) expense was $1.0 million, $0.4 million and $(0.4) million for fiscal years 2011, 2010 and 2009, respectively. The $0.6 million unfavorable change in fiscal 2011 compared to fiscal 2010 was related to lower exchange gains and higher miscellaneous expenses due primarily to the dissolution of an inactive entity. The $0.8 million unfavorable change in fiscal 2010 compared to fiscal 2009 was primarily due to lower interest income due to both lower interest rates and lower average balances in our investment accounts.

Income Tax Expense

(in thousands)	Year Ended January 31, 2011	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2010	Increase (Decrease) Compared to Prior Period $	Increase (Decrease) Compared to Prior Period %	Year Ended January 31, 2009
Income tax expense	$ 2,843	$ 1,735	157%	$ 1,108	$ 819	283%	$ 289
Percentage of revenue	1%			1%			0%
Effective tax rate	51%			45%			-1%

We recorded income tax expense of $2.8 million, $1.1 million, and $0.3 million for fiscal years 2011, 2010 and 2009, respectively. QAD's effective tax rate was 51%, 45%, and (1)% for fiscal years 2011, 2010 and 2009, respectively. Our effective tax rate increased in fiscal 2011 compared to fiscal 2010. The difference was primarily due to the benefit recognized in fiscal 2010 from the release of a tax contingency reserve after the conclusion of a foreign tax audit. Our income tax expense increased in fiscal 2011 when compared to fiscal 2010 primarily due to an increase in income before taxes. Our income tax expense and effective tax rate increased in fiscal 2010 when compared to fiscal 2009 primarily due to an increase in income before taxes, a dividend from a foreign subsidiary and a shortfall in our stock option deduction (i.e. the tax benefit realized is less than the amount previously recognized through stock-based compensation expense).

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

LIQUIDITY AND CAPITAL RESOURCES

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

Since the economic downturn, we have continued to contain costs and conserve cash. Our headcount remained consistent when comparing January 31, 2011 to January 31, 2010, and we made only critical capital expenditures during fiscal 2011 and 2010. Our dividend program gives investors the choice of payment in stock or cash. Our focus on reducing expenses and conserving cash throughout fiscal 2011 and 2010, combined with strong accounts receivable collection activities, contributed to our cash balance increasing from $44.7 million as of January 31, 2010 to $67.3 million as of January 31, 2011.

At January 31, 2011, our principal sources of liquidity were cash and equivalents totaling $67.3 million and net accounts receivable of $65.6 million. At January 31, 2011, our cash and equivalents consisted of current bank accounts, money market funds and time delineated deposits. Approximately 80% and 70% of our cash and equivalents were held in U.S. dollar denominated accounts as of January 31, 2011 and 2010, respectively. We have a U.S. line of credit facility that permits unsecured short-term borrowings of up to $20 million. Our line of credit agreement contains customary covenants that could restrict our ability to incur additional indebtedness or make dispositions of assets if we fail to comply with them. Our line of credit is available for working capital or other business needs. We have not drawn down on the line of credit during any of the last three fiscal years nor do we expect to draw down on the line of credit during fiscal 2012. Although the facility was originally scheduled to expire on April 10, 2011, we have agreed to a 60-day extension with Bank of America to June 9, 2011. We are currently negotiating the further extension or replacement of the expiring line of credit with a credit agreement with materially similar terms. Although this is our current expectation, extension or renewal of the credit agreement is not solely within our control, so we cannot assure that the credit agreement will be renewed on similar terms, if at all.

Our primary commercial banking relationship is with Bank of America and its global affiliates. Our cash and equivalents are held by diversified financial institutions globally, and as of January 31, 2011, the portion of our cash and equivalents held by Bank of America was approximately 90%.

The following table summarizes our cash flows for the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

(in thousands)	Year Ended January 31, 2011	Year Ended January 31, 2010	Year Ended January 31, 2009
Net cash provided by operating activities	$ 25,902	$ 17,696	$ 7,253
Net cash used in investing activities	(1,922)	(1,357)	(14,016)
Net cash used in financing activities	(2,131)	(4,507)	(4,448)
Effect of foreign exchange rates on cash and equivalents	749	1,379	(2,935)
Net increase (decrease) in cash and equivalents	$ 22,598	$ 13,211	$ (14,146)

Net cash flows provided by operating activities increased to $25.9 million in fiscal 2011 from $17.7 million in fiscal 2010. The $8.2 million increase in net cash flows provided by operating activities was primarily comprised of an increase in our net income of $1.4 million and the positive effect of changes in other liabilities relating to lower payments for severance of $5.8 million, higher accruals for bonuses and commissions of $5.5 million and higher accruals for payroll taxes and vacation of $2.8 million. Our non-cash expenses were lower by $3.4 million when comparing fiscal 2011 to fiscal 2010. Other changes to net cash provided by operating activities included a decrease in cash flow of $15.2 million due to the effect of changes in accounts receivable year over year which was offset by an increase in cash flow of $11.9 million due to the effect of changes in deferred revenue, accounts payable and other assets.

Capital expenditures were $1.4 million and $1.0 million in fiscal 2011 and 2010, respectively. For fiscal 2012 we expect capital expenditures in the range of $2 million to $3 million. We continue to closely monitor our capital spending. We do not believe we are delaying critical capital expenditures required to run our business.

Dividend related payments for fiscal 2011 totaled $2.2 million compared to $1.9 million in fiscal 2010. In fiscal 2010, we modified our dividend program to allow shareholders the choice of stock or cash, which has enabled us to conserve cash. The shares issued as a stock dividend are based on the fair value of QAD Class A common stock as of the record date. The Board of Directors evaluates our ability to continue to pay dividends and the structure of any dividends on a quarterly basis.

There were no stock repurchase related payments during fiscal 2011 or 2010. We do not currently have a stock repurchase program in place, however the Board of Directors evaluates our position relating to future potential repurchases on a regular basis.

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

DSO under the countback method was 52 days at January 31, 2011, compared to 54 days at January 31, 2010. DSO using the average method, which is calculated utilizing the accounts receivable balance and earned revenue for the most recent quarter, was 95 days and 104 days at January 31, 2011 and 2010, respectively. The decrease in DSO using the average method was primarily related to higher earned revenue in the fourth quarter of fiscal 2011 compared to the same period last year. We believe our reserve methodology is adequate and our reserves are properly stated as of January 31, 2011. We will continue to monitor our receivables closely given the economic environment.

There have been no material changes in our contractual obligations or commercial commitments. Cash requirements for items other than normal operating expenses are anticipated for capital expenditures and dividend payments. We may require cash for acquisitions of new businesses, software products or technologies complementary to our business.

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 table summarizes our significant contractual obligations at January 31, 2011 and the effect these contractual obligations are expected to have on our liquidity and cash flows in future periods.

	Year Ended January 31,						
	2012	2013	2014	2015	2016	Thereafter	Total
	(In millions)						
Notes payable	$ 0.3	$ 0.3	$ 0.3	$ 15.5	$ □	$ □	$ 16.4
Notes payable interest payments	1.1	1.1	1.0	0.5	□	□	3.7
Lease obligations	6.6	3.9	1.6	0.8	0.6	1.0	14.5
Purchase obligations	1.1	0.8	0.2	□	□	□	2.1
Total	$ 9.1	$ 6.1	$ 3.1	$ 16.8	$ 0.6	$ 1.0	$ 36.7

Purchase obligations are contractual obligations for purchase of goods or services. They are defined as agreements that are enforceable and legally binding on QAD and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations relate primarily to information technology infrastructure costs and hosting services agreements.

We have omitted unrecognized tax benefits from this table due to the inherent uncertainty regarding the timing of potential issue resolution. Specifically, either (a) the underlying positions have not been fully enough developed under audit to quantify at this time, or (b) the years relating to the issues for certain jurisdictions are not currently under audit. As of January 31, 2011, we had $2.5 million of unrecognized tax benefits. For further information regarding the unrecognized tax benefits see note 7 “Income Taxes” within Notes to Consolidated Financial Statements.

Purchase orders or contracts for the purchase of supplies and other goods and services are not included in the table above. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current procurement or development needs and are fulfilled by our vendors within short time frames. We do not have significant agreements for the purchase of supplies or other goods specifying minimum quantities or set prices that exceed our expected requirements for three months. In addition, we have certain royalty commitments associated with the shipment and licensing of certain products. Royalty expense is generally based on the number of units shipped or a percentage of the underlying revenue. Royalty expense, included in cost of license fees, maintenance, service and other revenue, was $15.0 million, $14.3 million and $17.0 million in fiscal 2011, 2010 and 2009, respectively.

Credit Facility

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 “Facility”). 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 Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”).

The Facility provided that we 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 minimum fixed charge coverage ratio of 2.00 to 1.00. 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, 2011, a prime rate borrowing would have had an effective rate of 3.0% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.01%.

Effective April 10, 2009, we executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA was reduced to $5 million with the definition of EBITDA amended to exclude goodwill impairment charges. The minimum fixed charge ratio was amended to 1.3 to 1.0 for the period February 1, 2009 through October 31, 2009 and thereafter 1.5 to 1.0. Although the Facility was originally scheduled to expire on April 10, 2011, we have agreed to a 60-day extension with Bank of America to June 9, 2011. We are currently negotiating the extension or replacement of the expiring line of credit with a credit agreement with materially similar terms. Although this is our current expectation, extension or renewal of the credit agreement is not solely within our control, so we cannot assure that the credit agreement will be renewed on similar terms, if at all.

As of January 31, 2011, there were no borrowings under the Facility and we were in compliance with the financial covenants of the Facility, as amended.

Notes Payable

In July 2004, we entered into a loan agreement with Mid-State Bank & Trust, a bank which was subsequently purchased by Rabobank, N.A. 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 our headquarters located in Santa Barbara, California. The terms of the loan provide that we will make 119 monthly payments of $115,000 consisting of principal and interest and one final principal payment of $15.4 million. The loan matures in July 2014. The balance of the note payable at January 31, 2011 was $16.4 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.

Off-Balance Sheet Arrangements

As of January 31, 2011, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Foreign Exchange Rates. For fiscal 2011, approximately 40% of our revenue was denominated in foreign currencies compared to 35% for fiscal years 2010 and 2009. We also incurred a significant part of our expenses in currencies other than the U.S. dollar, approximately 45% for fiscal 2011, 2010 and 2009. 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. For fiscal 2011, 2010 and 2009, foreign currency transaction and remeasurement (gains) losses totaled $0.1 million, $(0.1) million and $(0.1) million, respectively, and are included in "Other (income) expense, net" in our Consolidated Statements of Operations. 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 short-term marketable securities with maturities of less than 90 days at the date of purchase. Our investment securities are held for purposes other than trading. Cash balances held by subsidiaries are invested primarily in registered money market funds with local operating banks. Our debt is comprised of a loan agreement, secured by real property, which bears interest at a fixed rate of 6.5%. Additionally we have an unsecured loan agreement which bears interest at variable rates. As of January 31, 2011, there were no borrowings under our unsecured loan agreement.

We prepared sensitivity analyses of our interest rate exposure and our exposure from anticipated investment and borrowing levels for fiscal 2011 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 2011 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 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.

(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, 2011 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, 2011.

Our independent registered public accounting firm, KPMG LLP, has audited our internal control over financial reporting as of January 31, 2011, as stated in their report included in this Annual Report on Form 10-K.

(c) Changes in Internal Control over Financial Reporting

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 the internal control over financial reporting of QAD Inc. as of January 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The management of QAD Inc. 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.

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, 2011, 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, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2011, and our report dated April 15, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
April 15, 2011

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

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

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, 2011, which information is incorporated herein by reference.

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

EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning our executive officers. All ages are as of March 31, 2011.

NAME	AGE	POSITION(S)
Pamela M. Lopker	56	Chairman of the Board and President
Karl F. Lopker	59	Chief Executive Officer
Daniel Lender	44	Executive Vice President and Chief Financial Officer
Gordon Fleming	47	Executive Vice President and Chief Marketing Officer
Kara Bellamy	35	Sr. 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 was first appointed Executive Vice President and Chief Financial Officer in 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.

Gordon Fleming has served as Executive Vice President and Chief Marketing Officer since December 2006. Previously he served in a number of roles including Vice President of Vertical Marketing and Managing Director of QAD Australia Pty. Ltd. Mr. Fleming joined QAD as a Sales Manager in July 1995, working in the Australian subsidiary. Mr. Fleming began his career as a telecommunications engineer working in both the United Kingdom and Nigeria. Later Mr. Fleming moved into corporate finance holding sales and marketing roles with Barclays plc and Schroders plc. Mr. Fleming is a Member of the Institute of Electrical and Electronic Engineers (IEEE) and studied at Worthing College of Technology, UK.

Kara Bellamy has served as Senior Vice President, Corporate Controller and Chief Accounting Officer since January 2008. Previously, she served as QAD's Corporate Controller beginning December 2006. She joined QAD as Assistant Corporate Controller in July 2004 after working for Somera Communications, Inc. as its Corporate Controller from 2002 through 2004. Ms. Bellamy worked at the public accounting firm of Ernst & Young from 1997 to 2002. 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.

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 with Related Persons” 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. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	47
Consolidated Balance Sheets as of January 31, 2011 and 2010	48
Consolidated Statements of Operations for the years ended January 31, 2011, 2010 and 2009	49
Consolidated Statement of Stockholders' Equity and Comprehensive Income (Loss) for the years ended January 31, 2011, 2010 and 2009	50
Consolidated Statements of Cash Flows for the years ended January 31, 2011, 2010 and 2009	51
Notes to Consolidated Financial Statements	52

2. INDEX TO FINANCIAL STATEMENT SCHEDULES

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

	Page
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS	76

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 79.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
QAD Inc.:

We have audited the accompanying consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2011. 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, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2011, 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.

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, 2011, 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, 2011 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
April 15, 2011

QAD INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	January 31, 2011	January 31, 2010
Assets		
Current assets:		
Cash and equivalents	$ 67,276	$ 44,678
Accounts receivable, net of allowances of $2,661 and $3,442 at January 31, 2011 and 2010, respectively	65,620	61,089
Deferred tax assets, net	3,954	3,548
Other current assets	12,553	13,680
Total current assets	149,403	122,995
Property and equipment, net	33,795	37,219
Capitalized software costs, net	841	2,446
Goodwill	6,457	6,348
Deferred tax assets, net	20,080	19,411
Other assets, net	2,518	2,755
Total assets	$ 213,094	$ 191,174
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 304	$ 285
Accounts payable	10,003	7,952
Deferred revenue	94,453	85,745
Other current liabilities	30,891	24,835
Total current liabilities	135,651	118,817
Long-term debt	16,138	16,443
Other liabilities	5,214	6,363
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value. Authorized 5,000,000 shares; none issued or outstanding	—	—
Common stock:		
Class A, $0.001 par value. Authorized 71,000,000 shares; issued 14,146,416 shares and 14,145,564 shares at January 31, 2011 and 2010, respectively	14	14
Class B, $0.001 par value. Authorized 4,000,000 shares; issued 3,536,604 shares and 3,536,391 shares at January 31, 2011 and 2010, respectively	4	4
Additional paid-in capital	146,898	143,138
Treasury stock, at cost (1,721,601 shares and 2,005,763 shares at January 31, 2011 and 2010, respectively)	(28,070)	(32,275)
Accumulated deficit	(54,438)	(52,480)
Accumulated other comprehensive loss	(8,317)	(8,850)
Total stockholders' equity	56,091	49,551
Total liabilities and stockholders' equity	$ 213,094	$ 191,174

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years Ended January 31,		
	2011	2010	2009
Revenue:			
License fees	$ 32,446	$ 28,452	$ 46,673
Maintenance and other	131,162	131,142	133,080
Services	56,404	55,637	82,990
Total revenue	220,012	215,231	262,743
Costs and expenses:			
Cost of license fees	5,698	6,941	9,752
Cost of maintenance, service and other revenue	88,250	84,686	111,819
Sales and marketing	54,206	51,979	73,025
Research and development	34,575	37,303	43,107
General and administrative	30,637	30,969	33,763
Amortization of intangibles from acquisitions	55	482	734
Goodwill impairment loss	—	—	14,406
Total costs and expenses	213,421	212,360	286,606
Operating income (loss)	6,591	2,871	(23,863)
Other (income) expense:			
Interest income	(515)	(570)	(1,433)
Interest expense	1,248	1,273	1,245
Other (income) expense, net	304	(289)	(244)
Total other (income) expense	1,037	414	(432)
Income (loss) before income taxes	5,554	2,457	(23,431)
Income tax expense	2,843	1,108	289
Net income (loss)	$ 2,711	$ 1,349	$ (23,720)
Basic net income (loss) per share:			
Class A	$ 0.18	$ 0.09	$ (1.60)
Class B	$ 0.15	$ 0.08	$ (1.33)
Diluted net income (loss) per share:			
Class A	$ 0.17	$ 0.09	$ (1.60)
Class B	$ 0.14	$ 0.07	$ (1.33)

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Number of Shares			Amount		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income (Loss)
	Class A	Class B	Treasury	Class A	Class B						
Balance, January 31, 2008	14,144	3,536	(2,299)	$ 14	$ 4	$ 135,379	$ (36,336)	$ (21,596)	$ (4,870)	$ 72,595	
Comprehensive loss:											
Net loss	—	—	—	—	—	—	—	(23,720)	—	(23,720)	$ (23,720)
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(1,907)	(1,907)	(1,907)
Total comprehensive loss											$ (25,627)
Stock award exercises	1	—	94	—	—	(1)	1,382	(798)	—	583	
Stock-based compensation income tax deficiencies	—	—	—	—	—	(355)	—	—	—	(355)	
Stock compensation expense	—	—	—	—	—	5,505	—	—	—	5,505	
Dividends declared ($0.20 per share)	—	—	—	—	—	—	—	(3,055)	—	(3,055)	
Restricted stock	—	—	38	—	—	(625)	559	66	—	—	
Unearned compensation-restricted stock	—	—	—	—	—	44	—	—	—	44	
Repurchase of common stock	—	—	(131)	—	—	—	(2,219)	—	—	(2,219)	
Balance, January 31, 2009	14,145	3,536	(2,298)	14	4	139,947	(36,614)	(49,103)	(6,777)	47,471	
Comprehensive loss:											
Net income	—	—	—	—	—	—	—	1,349	—	1,349	$ 1,349
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	(2,073)	(2,073)	(2,073)
Total comprehensive loss											$ (724)
Stock award exercises	1	—	45	—	—	(6)	670	(392)	—	272	
Stock compensation expense	—	—	—	—	—	4,592	—	—	—	4,592	
Dividends declared ($0.20 per share)	—	—	—	—	—	—	—	(3,110)	—	(3,110)	
Dividends paid in stock	—	—	160	—	—	—	2,374	(1,149)	—	1,225	
Restricted stock	—	—	87	—	—	(1,395)	1,295	(75)	—	(175)	
Balance, January 31, 2010	14,146	3,536	(2,006)	14	4	143,138	(32,275)	(52,480)	(8,850)	49,551	
Comprehensive income:											
Net income	—	—	—	—	—	—	—	2,711	—	2,711	$ 2,711
Foreign currency translation adjustments	—	—	—	—	—	—	—	—	533	533	533
Total comprehensive income											$ 3,244
Stock award exercises	—	—	74	—	—	(25)	1,097	(633)	—	439	
Stock-based compensation income tax benefits	—	—	—	—	—	367	—	—	—	367	
Stock compensation expense	—	—	—	—	—	5,303	—	—	—	5,303	
Dividends declared ($0.21 and $0.20 per Class A and Class B share, respectively)	—	—	—	—	—	—	—	(3,296)	—	(3,296)	
Dividends paid in stock	—	—	98	—	—	—	1,457	(511)	—	946	
Restricted stock	—	1	112	—	—	(1,885)	1,651	(229)	—	(463)	
Balance, January 31, 2011	14,146	3,537	(1,722)	$ 14	$ 4	$ 146,898	$ (28,070)	$ (54,438)	$ (8,317)	$ 56,091	

See accompanying notes to consolidated financial statements.

QAD INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Years Ended January 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net income (loss)	$ 2,711	$ 1,349	$ (23,720)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	6,960	9,992	11,134
Provision for doubtful accounts and sales adjustments	468	2,025	1,665
Tax benefit from reversal of deferred tax valuation allowance	(148)	(1,194)	(658)
Loss on disposal of property and equipment	65	130	11
Deferred income taxes	(1,488)	(1,344)	(3,563)
Goodwill impairment loss	—	—	14,406
Exit costs	—	217	385
Stock compensation expense	5,303	4,592	5,516
Excess tax benefits from stock awards	(384)	—	(75)
Other, net	(320)	(554)	(474)
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(4,792)	10,447	7,593
Other assets	2,591	(153)	(397)
Accounts payable	2,069	(2,457)	1,496
Deferred revenue	7,548	2,872	(2,988)
Other liabilities	5,319	(8,226)	(3,078)
Net cash provided by operating activities	25,902	17,696	7,253
Cash flows from investing activities:			
Purchase of property and equipment	(1,432)	(963)	(6,338)
Proceeds from sale of marketable securities	—	—	275
Capitalized software costs	(484)	(426)	(894)
Acquisitions of businesses, net of cash acquired	(9)	(14)	(7,059)
Proceeds from sale of property and equipment	3	46	—
Net cash used in investing activities	(1,922)	(1,357)	(14,016)
Cash flows from financing activities:			
Repayments of debt	(287)	(255)	(288)
Dividends paid	(2,204)	(1,873)	(3,067)
Proceeds from issuance of common stock	439	272	583
Tax payments related to net share settlements of stock awards	(463)	(175)	—
Excess tax benefits from stock awards	384	—	75
Repurchase of common stock	—	—	(2,219)
Changes in cash overdraft	—	(2,476)	468
Net cash used in financing activities	(2,131)	(4,507)	(4,448)
Effect of exchange rates on cash and equivalents	749	1,379	(2,935)
Net increase (decrease) in cash and equivalents	22,598	13,211	(14,146)
Cash and equivalents at beginning of year	44,678	31,467	45,613
Cash and equivalents at end of year	$ 67,276	$ 44,678	$ 31,467
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 1,184	$ 1,230	$ 1,184
Income taxes, net of refunds	1,490	3,980	3,942
Supplemental disclosure of non-cash activities:			
Obligations associated with dividend declaration	926	780	768
Dividends paid in stock	946	1,225	—

See accompanying notes to consolidated financial statements.

QAD INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

QAD is a global provider of enterprise software applications, and related services and support. QAD's main Enterprise Resource Planning ("ERP") product suite is called QAD Enterprise Applications, formerly marketed as MFG/PRO. The QAD Enterprise Applications suite provides a set of capabilities designed to support core business operations and enable most common business processes. The Company is principally focused on addressing the needs of global manufacturing companies. Its solutions are configured to address the requirements of the following specific manufacturing industries: automotive, consumer products, food and beverage, high technology, industrial products and life sciences.

On December 14, 2010 QAD shareholders approved a Recapitalization plan (the "Recapitalization") pursuant to which the Company (i) established two classes of common stock, consisting of a new class of common stock with one-twentieth (1/20th) of a vote per share, designated as Class A common stock $0.001 par value per share (the "Class A Common Stock") and a new class of common stock with one vote per share, designated as Class B common stock $0.001 par value per share (the "Class B Common Stock"); (ii) reclassified each issued and outstanding whole share of the Company's existing $0.001 par value per share common stock (the "Existing Stock") as 0.1 share of Class B Common Stock; and (iii) issued a dividend of four shares of Class A Common Stock for each whole share of Class B Common Stock outstanding after giving effect to the foregoing reclassification. The reclassification of Existing Stock into Class A Common Stock and Class B Common Stock, together, reflects the effect of a two-to-one reverse stock split. Fractional shares were paid in cash and were not material.

All references in the financial statements to the number of shares, stock options, restricted shares, stock appreciation rights and related per-share amounts of the Company's common stock have been retroactively recast to reflect the effect of the Recapitalization for all periods presented.

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 entities have been eliminated from the consolidated 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 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. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The Company considers certain accounting policies related to revenue recognition, accounts receivable allowances, long-lived assets, goodwill, 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.

CASH AND EQUIVALENTS

Cash and equivalents consist of cash and short-term marketable securities with 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, 2011 and 2010, the Company's cash equivalents consisted of 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.

REVENUE RECOGNITION

The Company derives its revenues from the sale or the license of software products and from support services, subscriptions, consulting, development, training, and other professional services. The majority of the Company's software is sold or licensed in multiple-element arrangements that include support services and often consulting services or other elements. For software license arrangements that do not require significant modification or customization of the underlying software, the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectibility is probable. A majority of the Company's license revenue is recognized in this manner. 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. Should the Company grant payment terms greater than one year or terms that are not in accordance with its established history for similar arrangements, revenue would be recognized revenue as payments become due and payable assuming all other criteria for software revenue recognition have been met.

Provided all other revenue recognition criteria have been met, the Company recognizes license revenue on delivery using the residual method when vendor-specific objective evidence of fair value ("VSOE") exists for all of the undelivered elements (for example, support services, consulting, or other services) in the arrangement. The Company allocates revenue to each undelivered element based on VSOE, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by the Company's management if it is probable that the price will not change before the element is sold separately. The Company allocates revenue to undelivered support services based on rates charged to renew the support services annually after an initial period. The Company allocates revenue to undelivered consulting services based on time and materials rates of stand-alone services engagements by role and by country. The Company reviews VSOE at least annually. If the Company were to be unable to establish or maintain VSOE for one or more undelivered elements within a multiple-element arrangement, it could adversely impact revenues, results of operations and financial position because the Company may have to defer all or a portion of the revenue or recognize revenue ratably from multiple-element arrangements.

Multiple element arrangements for which VSOE does not exist for all undelivered elements typically occur when the Company introduces a new product or product bundles for which it has not established VSOE for support services or consulting or other services under its VSOE policy. In these instances, revenue is deferred and recognized ratably over the longer of the support services (maintenance period) or consulting services engagement, assuming there are no specified future deliverables. In the instances in which it has been determined that revenue on these bundled arrangements will be recognized ratably due to lack of VSOE, at the time of recognition, the Company allocates revenue from these bundled arrangement fees to all of the non-license revenue categories based on VSOE of similar support services or consulting services. The remaining arrangement fees, if any, are then allocated to software license fee revenues. The associated costs primarily consist of payroll and related costs to perform both the consulting services and provide support services and royalty expense related to the license and maintenance revenue. These costs are expensed as incurred and included in cost of maintenance, services and other and cost of license based on the allocated revenue categories.

Revenue from support services and product updates, referred to as maintenance revenue, 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. A majority of the Company's customers purchase both product support and license updates when they acquire new software licenses. In addition, a majority of customers renew their support services contracts annually.

Revenues from consulting services are typically comprised of implementation, development, training or other consulting services. Consulting services are generally sold on a time-and-materials basis and can include services ranging from software installation to data conversion and building non-complex interfaces to allow the software to operate in integrated environments. Consulting engagements can range anywhere from one day to several months and are based strictly on the customer's requirements and complexities and are independent of the functionality of the Company's software. The Company's software, as delivered, can generally be used by the customer for the customer's purpose upon installation. Further, implementation and integration services provided are generally not essential to the functionality of the software, as delivered, and do not result in any material changes to the underlying software code. On occasion, the Company enters into fixed fee arrangements in which customer payments are tied to achievement of specific milestones. In fixed fee arrangements, revenue is recognized as services are performed as measured by hours incurred to date, as compared to total estimated hours to be incurred to complete the work. In milestone achievement arrangements, the Company recognizes revenue as the respective milestones are achieved.

Revenue from the Company's subscription product offerings, including On Demand products, 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 using the residual method.

The Company occasionally resells third party systems as part of an end-to-end solution requested by its customers. Hardware revenue is recognized on a gross basis when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is considered probable. The Company considers delivery to occur when the product is shipped and title and risk of loss have passed to the customer.

Although infrequent, 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. Arrangements that do not qualify for separate accounting of the software license fee and consulting services typically occur when the Company is requested to customize software or where the Company views the installation of its software as high risk in the customer's environment. This requires the Company to make estimates about the total cost to complete the project and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenues and expenses reported. Changes in estimates of progress toward completion and of contract revenues and contract costs are accounted for using the cumulative catch up approach. In these arrangements, the Company does not have a sufficient basis to estimate the costs of providing support services. As a result, revenue is typically recognized on a percent completion basis up to the amount of costs incurred (zero margin). Once the consulting services are complete and support services are the only undelivered item, the remaining revenue is recognized evenly over the remaining support period. If the Company does not have a sufficient basis to measure the progress of completion or to estimate the total contract revenues and costs, revenue is recognized when the project is complete and, if applicable, final acceptance is received from the customer. The Company allocates these bundled arrangement fees to support services and consulting services revenues based on VSOE. The remaining arrangement fees are then allocated to software license fee revenues. The associated costs primarily consist of payroll and related costs to perform the consulting and support services and royalty expense and are included in cost of license, maintenance, services and other based on the allocation of the related revenue categories.

The Company executes arrangements through indirect sales channels via sales agents and distributors in which the indirect sales channels are authorized to market its software products to end users. In arrangements with sales agents, revenue is recognized on a sell-through basis once an order is received from the end user, collectability from the end user is probable, a signed license agreement from the end user has been received by the Company, delivery has been made to the end user and all other revenue recognition criteria have been satisfied. Sales agents are compensated on a commission basis. Distributor arrangements are those in which the resellers are authorized to market and distribute our software products to end users in specified territories and the distributor bears the risk of collection from the end user customer. The Company recognizes revenue from transactions with distributors when the distributor submits a written purchase commitment, collectability from the distributor is probable, a signed license agreement is received from the distributor and delivery has occurred to the distributor, provided that all other revenue recognition criteria have been satisfied. Revenue for distributor transactions is recorded on a net basis (the amount actually received by the Company from the distributor). The Company does not offer rights of return, product rotation or price protection to any of its distributors.

ACCOUNTS RECEIVABLE ALLOWANCES

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The collectability of accounts receivable is reviewed each period by analyzing balances based on age. Specific allowances are recorded for any balances that the Company determines may not be fully collectible due to inability of the customers to pay. The Company also provides a general reserve based on historical data including analysis of write-offs and other known factors. Provisions to the allowance for bad debts are included as bad debt expense in general and administrative expense. The determination to write-off specific accounts receivable balances is made based on likelihood of collection and past due status. Past due status is based on invoice date and terms specific to each customer.

The Company does not generally provide a contractual right of return; however, in the course of business sales returns and allowances may occur. A provision is recorded against revenue for estimated sales returns and allowances in the same period the related revenues are recorded or when current information indicates additional amounts are required. These estimates are based on historical experience, specifically identified customers and other known factors.

The accounts receivable allowance for doubtful accounts is comprised of both the allowance for bad debts and the allowance for sales returns.

LONG-LIVED ASSETS

Long-lived assets generally consist of property and equipment and intangible assets other than goodwill. 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 expensed via 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.

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 and are included in property and equipment classified as software. 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.

Intangible assets, other than goodwill, arise from business combinations and generally consist of customer relationships, restrictive covenants related to employment agreements, trade names and intellectual property that are amortized, on a straight-line basis, generally over periods of up to five years. Finite-lived intangible assets are required to be amortized over their useful lives and are subject to impairment evaluation. The Company assesses the realizability of its long-lived assets and related intangible assets, other than goodwill, whenever changes in circumstances indicate the carrying values of such assets may not be recoverable. The Company considers the following factors important in determining when to perform an impairment review: significant under-performance of a product relative to budget; shifts in business strategies which affect the continued uses of the assets; significant negative industry or economic trends; and the results of past impairment reviews.

In assessing the recoverability of these long-lived assets, the Company first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value of the assets or asset groups is determined through various valuation techniques including discounted cash flow models, quoted market values and independent third party appraisals, as considered necessary. In addition to recoverability assessments, the Company routinely reviews the remaining estimated useful lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the quarter when such determinations are made, as well as in subsequent quarters.

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of net assets of purchased businesses. Goodwill is not amortized, but instead is subject to impairment tests on at least an annual basis and whenever circumstances suggest that goodwill may be impaired. The Company tests goodwill for impairment in the fiscal fourth quarter of each year. The Company performs a two-step impairment test. Under the first step of the goodwill impairment test, the Company is required to compare the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and the second step is not performed. If the results of the first step of the impairment test indicate that the fair value of a reporting unit does not exceed its carrying amount, then the second step of the goodwill impairment test is required. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. The impairment loss is measured by the excess of the carrying amount of the reporting unit goodwill over the implied fair value of that goodwill.

Effective February 1, 2009, the Company determined that it has one reporting unit. Management evaluates the Company as a single reporting unit for business and operating purposes as almost all of the Company's revenue streams are generated by the same underlying technology whether acquired, purchased or developed. In addition, the majority of QAD's costs are, by their nature, shared costs that are not specifically identifiable to a geography or product line but relate to almost all products. As a result, there is a high degree of interdependency among the Company's revenues and cash flows for levels below the consolidated entity and identifiable cash flows for a reporting unit separate from the consolidated entity are not meaningful. Therefore, the Company's impairment test considered the consolidated entity as a single reporting unit.

Prior to February 1, 2009, the Company allocated goodwill to four geographic reporting units. Accordingly, goodwill impairment tests were conducted annually for each of the four reporting units. Prior to combining reporting units on February 1, 2009, the Company performed an impairment test on each of the three reporting units that had goodwill remaining and determined there was no impairment to any reporting unit. This change in reporting unit structure was brought about by an internal reorganization of the Company's sales operations and de-emphasis on regional results as a result of the importance of the global nature of the Company's customer base. An example of the Company's internal reorganization is the creation of the strategic accounts group, which is accountable for sales to QAD's multi-national customers, irrespective of geography, who generate a large portion of QAD's revenue. The purpose of the strategic accounts group within the sales organization is to provide additional expertise and devote additional time to global customer accounts with revenues spanning across all regions. In order to serve this base of global customers, the Company must maintain a presence in certain foreign locations where it may not be profitable to do so and sales and support efforts are devoted to these customers irrespective of where the end users are located.

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 exceeds the estimated net realizable value of that asset would be reported as a charge to the Consolidated Statement of Operations.

STOCK-BASED COMPENSATION

The Company accounts for share-based payments ("equity awards") to employees in accordance with ASC 718, *Compensation—Stock Compensation,* which requires that share-based payments (to the extent they are compensatory) be recognized in the consolidated statements of operations based on the fair values of the equity awards as measured at the grant date. The fair value of an equity award is recognized as stock-based compensation expense ratably over the vesting period of the equity award. Determining the fair value of equity awards at the grant date requires judgment.

Fair Value of SARs

The fair value of stock-settled stock appreciation rights ("SARs") is determined on the grant date of the award using the Black-Scholes-Merton valuation model. One of the inputs to the Black-Scholes-Merton valuation model is the fair market value of the Company's stock on the date of the grant. Judgment is required in determining the remaining inputs to the Black-Scholes-Merton valuation model. These inputs include the expected life, volatility, the risk free interest rate and the dividend rate. The following describes the Company's policies with respect to determining these valuation inputs:

Expected Life

The expected life valuation input includes a computation that is based on historical vested option and SAR exercise and post-vest expiration patterns and an estimate of the expected life for options and SARs that were fully vested and outstanding. Furthermore, based on the Company's historical pattern of option and SAR exercises and post-vest expiration patterns the Company determined that there are two discernable populations which include the Company's directors and officers ("D&O") and all other QAD employees. The estimate of the expected life for options and SARs that were fully vested and outstanding is determined as the midpoint of a range as follows: the low end of the range assumes the fully vested and outstanding options and SARs are exercised or expire unexercised on the evaluation date and the high end of the range assumes that these options and SARs are exercised or expire unexercised upon contractual term.

Volatility

The volatility valuation input is based on the historical volatility of the Company's common stock, which the Company believes is representative of the expected volatility over the expected life of SARs.

Risk Free Interest Rate

The risk free interest rate is based on the U.S. Treasury constant maturities in effect at the time of grant for the expected term of the option or share.

Dividend Rate

The dividend rate is based on the Company's historical dividend payments per share. Historically, the Company paid quarterly dividends at a rate of $0.05 per common share.

Fair Value of RSUs

The fair value of restricted stock units ("RSUs") is determined on the grant date of the award as the market price of the Company's common stock on the date of grant, reduced by the present value of estimated dividends foregone during the vesting period. Judgment is required in determining the present value of estimated dividends foregone during the vesting period. The Company estimates the dividends for purposes of this calculation based on the Company's historical dividend payments per share. Historically, the Company paid quarterly dividends at a rate of $0.05 per common share.

While the Company recognizes as stock-based compensation expense the entire amount of the fair value of a vested equity award once it has vested, during the periods in which the equity awards are vesting, the Company is required to estimate equity awards that are expected to cancel prior to vesting ("forfeitures") and reduce the stock-based compensation expense recognized in a given period for the effects of estimated forfeitures over the expense recognition period ("forfeiture rate"). To determine the forfeiture rate, the Company examined the historical pattern of forfeitures which it believes is indicative of future forfeitures in an effort to determine if there were any discernable forfeiture patterns based on certain employee populations. From this analysis, the Company identified two employee populations that have different historical forfeiture rates. One population includes D&O and the other population includes all other QAD employees. The Company evaluates the forfeiture rate annually or more frequently when there have been any significant changes in forfeiture activity.

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. For deferred tax assets that cannot be recognized under the more-likely-than-not-standard, the Company has established a valuation allowance. 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.

The Company records a liability for taxes to address potential exposures involving uncertain tax positions that could be challenged by taxing authorities, even though the Company believes that the positions taken are appropriate. The tax reserves are reviewed on a quarterly basis and adjusted as events occur that affect the Company's potential liability for additional taxes. The Company is subject to income taxes in the U.S. and in various foreign jurisdictions, and in the ordinary course of business there are many transactions and calculations where the ultimate tax determination is uncertain. For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized upon ultimate settlement in the financial statements. For tax positions that do not meet the "more likely than not" standard the entire balance is reserved.

COMPUTATION OF NET INCOME (LOSS) PER SHARE

In connection with the Recapitalization, each existing share of common stock was reclassified as 0.1 share Class B common stock and each whole share thereof was issued a divided of 4 shares of Class A common stock. The Recapitalization had the effect of a two-for-one reverse stock split, where, for example, the holder of 10 shares of existing stock received in exchange one share of Class B common stock and 4 shares of Class A common stock. Net income or loss per share of Class A common stock and Class B common stock is computed using the two-class method. Holders of Class A common stock are entitled to cash or stock dividends equal to 120% of the amount of such dividend payable with respect to a share of Class B Common Stock. As a result of the Recapitalization, prior period basic and diluted weighted-average shares outstanding have been recast in order to reflect the two classes of common stock that now exist.

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

	Years Ended January 31,		
	2011	2010	2009
	(in thousands, except per share data)		
Net income (loss)	$ 2,711	$ 1,349	$ (23,720)
Less: Dividends declared	(3,296)	(3,110)	(3,055)
Undistributed net loss	$ (585)	$ (1,761)	$ (26,775)
Net income (loss) per share – Class A Common Stock			
Dividends declared	$ 2,728	$ 2,574	$ 2,529
Allocation of undistributed net loss	(484)	(1,458)	(22,159)
Net income (loss) attributable to Class A common stock	$ 2,244	$ 1,116	$ (19,630)
Weighted average shares of Class A common stock outstanding—*basic*	12,621	12,407	12,270
Weighted average potential shares of Class A common stock	429	500	—
Weighted average shares of Class A common stock and potential common shares outstanding —*diluted*	13,050	12,907	12,270
Basic net income (loss) per Class A common share	$ 0.18	$ 0.09	$ (1.60)
Diluted net income (loss) per Class A common share	$ 0.17	$ 0.09	$ (1.60)
Net income (loss) per share – Class B Common Stock			
Dividends declared	$ 568	$ 536	$ 526
Allocation of undistributed net loss	(101)	(303)	(4,616)
Net income (loss) attributable to Class B common stock	$ 467	$ 233	$ (4,090)
Weighted average shares of Class B common stock outstanding—*basic*	3,155	3,102	3,068
Weighted average potential shares of Class B common stock	107	125	—
Weighted average shares of Class B common stock and potential common shares outstanding —*diluted*	3,262	3,227	3,068
Basic net income (loss) per Class B common share	$ 0.15	$ 0.08	$ (1.33)
Diluted net income (loss) per Class B common share	$ 0.14	$ 0.07	$ (1.33)

Potential common shares consist of the shares issuable upon the release of restricted stock units (RSUs) and the exercise of stock options and stock appreciation rights (SARs). The Company's unvested RSUs, stock options and SARs are not considered participating securities as they do not have rights to dividends or dividend equivalents prior to release of exercise. Class A common stock equivalents of approximately 1.9 million, 1.6 million and 2.6 million for fiscal 2011, 2010 and 2009, respectively, were not included in the diluted calculation because their effects were anti-dilutive. Class B common stock equivalents of approximately 0.5 million, 0.4 million and 0.6 million for fiscal 2011, 2010 and 2009, respectively, were not included in the diluted calculation because their effects 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.

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 2011, 2010 and 2009 totaled $0.1 million, $(0.1) million and $(0.1) million, respectively, and are included in "Other (income) expense, net" in the accompanying Consolidated Statements of Operations.

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 $17.1 million at January 31, 2011 and the carrying value was $16.4 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, 2011 or January 31, 2010.

RESEARCH AND DEVELOPMENT

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

COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) 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 (loss) are net income (loss) 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 (Loss).

RECENT ACCOUNTING STANDARDS

Recently Issued Accounting Standards

Milestone Method of Revenue Recognition

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605) – Revenue Recognition* ("ASU 2010-17"). ASU 2010-17 provides guidance on defining the milestone and determining when the use of the milestone method of revenue recognition for research or development transactions is appropriate. It provides criteria for evaluating if the milestone is substantive and clarifies that a vendor can recognize consideration that is contingent upon achievement of a milestone as revenue in the period in which the milestone is achieved, if the milestone meets all the criteria to be considered substantive. ASU 2010-17 is effective for us in fiscal 2012 and should be applied prospectively. The Company is currently evaluating the impact of the pending adoption of ASU 2010-17 on its consolidated financial statements.

Fair Value Disclosures

In January 2010 the FASB issued guidance that expands the interim and annual disclosure requirements of fair value measurements, including the information about movement of assets between Level 1 and 2 of the three-tier fair value hierarchy established under its fair value measurement guidance. This guidance also requires separate disclosure for purchases, sales, issuances and settlements in the reconciliation for fair value measurements using significant unobservable inputs using Level 3 methodologies. Except for the detailed disclosure in the Level 3 reconciliation, which is effective for the fiscal years beginning after December 15, 2010, the Company adopted the relevant provisions of this guidance effective February 1, 2010, which did not have a material impact on its financial statements.

Recently Adopted Accounting Standards

Revenue Recognition

In September 2009 the Financial Accounting Standards Board, or FASB, reached a consensus on Accounting Standards Update, or ASU, 2009-13, *Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements* ("ASU 2009-13") and ASU 2009-14, *Software (Topic 985) — Certain Revenue Arrangements That Include Software Elements* ("ASU 2009-14"). ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 establishes a selling price hierarchy that allows for the use of an estimated selling price to determine the allocation of arrangement consideration to a deliverable in a multiple element arrangement where neither VSOE nor third-party evidence ("TPE"), is available for that deliverable. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities are required to estimate the selling prices of those elements. Overall arrangement consideration is allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated for transactions outside of the scope of Topic 985. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software components that function together to deliver a product's essential functionality. The Company adopted the provisions of these ASUs effective February 1, 2010 and they did not have a material impact on its results of operations.

2. FAIR VALUE MEASUREMENTS

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

The following table sets forth the financial assets, measured at fair value, as of January 31, 2011 and 2010:

	Fair value measurement at reporting date using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)	
Money market mutual funds as of January 31, 2011	$ 48,390	$ —	$ —
Money market mutual funds as of January 31, 2010	26,930	—	—

Money market mutual funds are classified as part of "Cash and equivalents" in the accompanying Condensed Consolidated Balance Sheets and are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. As of January 31, 2011 and 2010, the amount of cash and cash equivalents included cash deposited with commercial banks of $18.9 million and $17.8 million, respectively.

There have been no transfers between fair value measurement levels during the year ended January 31, 2011.

3. CAPITALIZED SOFTWARE COSTS

Capitalized software costs and accumulated amortization at January 31, 2011 and 2010 were as follows:

	January 31,	
	2011	2010
	(in thousands)	
Capitalized software costs:		
Acquired software technology	$ 954	$ 4,402
Capitalized software development costs	1,924	4,167
	2,878	8,569
Less accumulated amortization	(2,037)	(6,123)
Capitalized software costs, net	$ 841	$ 2,446

The acquired software technology costs primarily relate to technology purchased from the Company's fiscal 2007 acquisitions of Precision, Soft Cell and Bisgen and from the FullTilt acquisition completed in fiscal 2009, none of which were significant. QAD acquired the rights to the SoftCell technology in two steps: co-ownership rights in fiscal 2006 and full ownership rights as part of the fiscal 2007 acquisition. 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.

It is the Company's policy to write-off capitalized software development costs once fully amortized. Accordingly, during fiscal 2011, $6.2 million of costs and accumulated amortization was removed from the balance sheet.

Amortization of capitalized software costs for fiscal 2011, 2010 and 2009 was $2.1 million, $3.8 million and $4.2 million, respectively. Amortization of capitalized software costs is included in "Cost of license fees" in the accompanying Consolidated Statements of Operations. The estimated remaining amortization expense related to capitalized software costs for the years ended January 31, 2012, 2013 and 2014 is $0.5 million, $0.2 million and $0.1 million, respectively.

4. GOODWILL

Goodwill

The changes in the carrying amount of goodwill for the fiscal years ended January 31, 2011 and 2010 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Impairment	Goodwill, Net
		(in thousands)	
Balance at January 31, 2009	$ 21,845	$ (15,608)	$ 6,237
Impact of foreign currency translation	111	—	111
Balance at January 31, 2010	$ 21,956	$ (15,608)	$ 6,348
Impact of foreign currency translation	109	—	109
Balance at January 31, 2011	$ 22,065	$ (15,608)	$ 6,457

There were no additions to goodwill in fiscal 2011 and 2010.

During the fourth quarter of fiscal 2011 and 2010, an impairment analysis was performed at the enterprise level which compared the Company's market capitalization to its net assets as of the test date, November 30th. As the market capitalization substantially exceeded the Company's net assets, there was no indication of goodwill impairment for fiscal 2011 and 2010.

Prior to fiscal 2010, the Company's reporting units were identified at the geographic level: North America, EMEA, Asia Pacific and Latin America. Upon completion of the fiscal 2009 impairment assessment, the Company determined that the carrying value of the EMEA reporting unit exceeded its estimated fair value. Because indicators of impairment existed for this reporting unit, the Company performed the second step of the test to determine the fair value of the goodwill of the EMEA reporting unit. The implied fair value of goodwill was determined in the same manner utilized to estimate the amount of goodwill recognized in a business combination. As part of the second step of the impairment test, the Company calculated the fair value of certain assets, including distribution network, developed technology, trade name and workforce. To determine the implied value of goodwill, fair values were allocated to the assets and liabilities of the EMEA reporting unit as of November 30, 2008. The implied fair value of goodwill was measured as the excess of the fair value of the EMEA reporting unit over the amounts assigned to its assets and liabilities. The impairment loss for the EMEA reporting unit was measured by the amount the carrying value of goodwill exceeded the implied fair value of the goodwill. Based on this assessment, the Company recorded a charge of $14.4 million in the fourth quarter of fiscal 2009, which represented all of the goodwill related to the EMEA reporting unit. The primary factor contributing to this impairment charge was the significant economic downturn in the fourth quarter of fiscal 2009, which caused a decline in revenue and cash flow projections.

5. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

	January 31,	
	2011	2010
	(in thousands)	
Accounts receivable, net		
Accounts receivable	$ 68,281	$ 64,531
Less allowance for:		
Doubtful accounts	(1,165)	(1,657)
Sales adjustments	(1,496)	(1,785)
	$ 65,620	$ 61,089
Other current assets		
Deferred cost of revenues	$ 7,255	$ 7,449
Prepaid expenses	3,859	3,474
Income tax receivable	—	1,133
Other	1,439	1,624
	$ 12,553	$ 13,680
Property and equipment, net		
Buildings and building improvements	$ 32,194	$ 32,249
Computer equipment and software	23,821	26,308
Furniture and office equipment	13,043	13,836
Leasehold improvements	5,666	5,756
Land	3,850	3,850
Automobiles (including under capital lease)	297	248
	78,871	82,247
Less accumulated depreciation and amortization	(45,076)	(45,028)
	$ 33,795	$ 37,219
Accounts payable		
Other payables	$ 5,912	$ 4,880
VAT payable	4,091	3,072
	$ 10,003	$ 7,952
Deferred revenue		
Deferred maintenance revenue	$ 81,034	$ 76,336
Deferred services revenue	4,744	1,839
Deferred research and development funding	3,246	3,112
Deferred license revenue	3,061	2,932
Deferred subscription revenue	2,318	1,495
Other deferred revenue	50	31
	$ 94,453	$ 85,745
Other current liabilities		
Accrued commissions and bonus	$ 12,053	$ 7,268
Accrued compensated absences	7,086	6,913
Other accrued payroll	3,030	1,740
Accrued professional fees	1,766	2,394
Accrued travel	995	985
Dividends payable	926	780
Other current liabilities	5,035	4,755
	$ 30,891	$ 24,835
Other liabilities		
Long-term deferred revenue	$ 2,359	$ 2,985
Long-term tax contingency reserve	2,155	2,411
Other	700	967
	$ 5,214	$ 6,363

6. DEBT

	January 31,	
	2011	2010
	(in thousands)	
Total debt		
Note payable	$ 16,442	$ 16,728
Less current maturities	(304)	(285)
Long-term debt	$ 16,138	$ 16,443

The aggregate maturities of the note payable, for each of the next five fiscal years and thereafter are as follows: $0.3 million in fiscal 2012; $0.3 million in fiscal 2013; $0.3 million in fiscal 2014 and $15.5 million in fiscal 2015.

Notes Payable

In July 2004, the Company entered into a loan agreement with Mid-State Bank & Trust, a bank which was subsequently purchased by Rabobank, N.A. 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. The unpaid balance as of January 31, 2011 was $16.4 million.

Credit Facility

Effective April 10, 2008, the Company entered into an unsecured loan agreement with Bank of America N.A. (the “Facility”). The Facility provides a three-year commitment for a $20 million line of credit. The Company pays 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 Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”).

The Facility provided that the Company maintain certain financial and operating covenants which include, among other provisions, a maximum 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 minimum fixed charge coverage ratio of 2.00 to 1.00. 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, 2011, a prime rate borrowing would have had an effective rate of 3.0% and a 30-day LIBOR borrowing would have had an effective rate of approximately 1.01%.

Effective April 10, 2009, the Company executed an amendment to the Facility to amend the 12-month trailing EBITDA and fixed charge ratio covenants for future reporting periods. For the reporting period beginning February 1, 2009 through the expiration of the Facility, the minimum 12-month trailing EBITDA is reduced to $5.0 million with the definition of EBITDA amended to exclude goodwill impairment charges. Although the Facility was originally scheduled to expire on April 10, 2011, the Company has agreed to a 60-day extension with Bank of America to June 9, 2011. The Company is currently negotiating the extension or replacement of the expiring line of credit with a credit agreement with materially similar terms. Although this is the Company’s current expectation, extension or renewal of the credit agreement is not solely within its control, so there is no assurance that the credit agreement will be renewed on similar terms, if at all.

As of January 31, 2011 there were no borrowings under the Facility.

7. INCOME TAXES

Income tax expense (benefit) is summarized as follows:

	Years Ended January 31,		
	2011	2010	2009
		(in thousands)	
Current:			
Federal	$ 679	$ 598	$ 501
State	268	658	21
Foreign	2,663	1,196	3,330
Subtotal	3,610	2,452	3,852
Deferred:			
Federal	(1,206)	(49)	(1,965)
State	35	(829)	(440)
Foreign	(317)	(466)	(1,158)
Subtotal	(1,488)	(1,344)	(3,563)
Equity	721		
Total	$ 2,843	$ 1,108	$ 289

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,		
	2011	2010	2009
		(in thousands)	
Computed expected tax expense	$ 1,888	$ 836	$ (7,730)
State income taxes, net of federal income tax expense	491	804	(45)
Incremental tax benefit from foreign operations	(1,474)	(1,611)	3,130
Non-deductible equity compensation	335	795	319
Foreign withholding taxes	776	891	772
Net change in valuation allowance	99	(679)	(3,154)
Net change in contingency reserve	91	(433)	499
Non-deductible expenses	969	79	527
Benefit of tax credits	(456)	(702)	(590)
Subpart F Income	383	312	557
Non-deductible goodwill impairment			2,100
Rate change impact	20	(9)	2,635
Dividend income		848	
Other	(279)	(23)	1,269
	$ 2,843	$ 1,108	$ 289

Consolidated U.S. book income/(loss) before income taxes was $(2.8) million, $(2.6) million, and $(9.8) million for the fiscal years ended January 31, 2011, 2010 and 2009, respectively. The corresponding book income/loss before income taxes for foreign operations was $8.4 million, 5.1 million, and $(13.6) million for the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

The Company files U.S. federal, state, and foreign tax returns that are subject to audit by various tax authorities. The Company is currently under audit in India for fiscal years ended March 31, 1998, 1999, 2008 and 2009, South Africa for fiscal year 2010 and in California for fiscal years ended 2004 and 2005. In fiscal year 2011, the following audits were completed without adjustment: Japan fiscal years 2008 through 2010 and Tennessee fiscal years 2006 through 2008.

U.S. income and foreign withholding taxes have not been recorded on permanently reinvested earnings of our foreign subsidiaries. These permanently reinvested earnings are approximately $41.1 million at fiscal year 2011. It is not practicable for the Company to determine the amount of the related unrecognized deferred income tax liability. Such earnings would become taxable upon the sale or liquidation of these subsidiaries or upon the remittance of dividends.

Deferred income taxes reflect the net effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

	January 31,	
	2011	2010
	(in thousands)	
Deferred tax assets:		
Allowance for doubtful accounts and sales adjustments	$ 559	$ 1,097
Accrued vacation	1,570	1,581
Accrued commissions	464	413
Alternative minimum tax credits	565	784
Research and development credits	6,955	7,067
Foreign tax credits	229	209
Deferred revenue	6,063	2,594
Depreciation and amortization	840	642
Net operating loss carry forwards	13,703	15,171
Intangibles	129	561
Accrued expenses - other	1,105	652
Section 263(a) interest capitalization	406	417
Stock compensation	5,376	4,838
Unrecognized gain/loss on translation	45	(197)
Other	450	526
Total deferred tax assets	38,459	36,355
Less valuation allowance	(10,571)	(9,589)
Deferred tax assets, net of valuation allowance	$ 27,888	$ 26,766
Deferred tax liabilities:		
Capitalized software development costs	$ 291	$ 539
Unrecognized capital gain	947	972
Other comprehensive income	2,559	2,141
Other	57	155
Total deferred tax liabilities	3,854	3,807
Total net deferred tax asset	$ 24,034	$ 22,959
Current portion of deferred tax asset, net	3,954	3,548
Non-current portion of deferred tax asset, net	20,080	19,411
Total net deferred tax asset	$ 24,034	$ 22,959

The Company has revised its presentation of deferred tax assets and liabilities to reflect the federal benefit of state as it pertains to each line item. In prior years the federal benefit of state was reflected as a separate line item in the liabilities section of the deferred tax assets and liabilities. Fiscal year 2010 balances have been reclassified to reflect this change.

The Company reviews its net deferred tax assets by jurisdiction on a quarterly basis to determine whether a valuation allowance is necessary based on the more-likely-than-not standard. If and when the Company's operating performance improves on a sustained basis, the conclusion regarding the need for a valuation allowance could change, resulting in the reversal of some or all of the valuation allowance in the future. At January 31, 2011 and 2010, the valuation allowance attributable to deferred tax assets was $10.6 million and $9.6 million, respectively.

Deferred tax assets at January 31, 2011 and 2010 do not include $0.9 million and $1.6 million, respectively, of excess tax benefits from employee stock exercises. Prior to fiscal 2011, the U.S. Consolidated Group was utilizing net operating loss carryforwards to offset its tax liability and therefore was unable to recognize the excess tax benefits from employee stock exercises. During fiscal 2011, the Company utilized all of its net operating loss carryforwards that were available to be utilized during fiscal 2011 and was able to recognize $0.7 million of excess tax benefits. Equity will be increased by an additional $0.9 million when such excess tax benefits are ultimately realized.

The Company has net operating loss carryforwards of $52.0 million and tax credit carryforwards of $9.0 million as of January 31, 2011. The majority of our net operating loss carryforwards do not expire, the remaining begin to expire in fiscal year 2012. The majority of our tax credit carryforwards do not expire, the remaining begin to expire in fiscal year 2016.

During the fiscal year ended January 31, 2011, the Company increased its reserves for uncertain tax positions by $0.1 million. Interest and penalties on accrued but unpaid taxes are classified in the Consolidated Statement of Operations as income tax expense. The liability for unrecognized tax benefits that may be recognized in the next twelve months is classified as short-term in the Company's Consolidated Balance Sheet while the remainder is classified as long-term.

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

	Years Ended January 31	
	2011	2010
	(in thousands)	
Unrecognized tax benefits at beginning of the year	$ 2,411	$ 2,844
Increases as a result of tax positions taken in a prior period	115	29
Decreases as a result of tax positions taken in a prior period		(12)
Reduction as a result of a lapse of the statute of limitations	(11)	
Decreases as a result of tax settlements	(13)	(450)
Unrecognized tax benefit at end of year	$ 2,502	$ 2,411

All of the unrecognized tax benefits included in the balance sheet at January 31, 2011 would impact the effective tax rate on income from continuing operations, if recognized.

The total amount of interest expense recognized in the Consolidated Statements of Operations for unpaid taxes is $0.1 million for the year ended January 31, 2011. The total amount of interest and penalties recognized in the Consolidated Balance Sheet at January 31, 2011 is $0.2 million.

In the next twelve months, due to a potential tax credit settlement and a statute expiration an estimated $0.3 million of gross unrecognized tax benefits may be recognized.

The Company files U.S. federal, 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. Below is a list of our material jurisdictions and the years open for audit as of fiscal 2011:

Jurisdiction	Years Open for Audit
US Federal	FY08 and beyond
California	FY07 and beyond
Michigan	FY07 and beyond
New Jersey	FY07 and beyond
Texas	FY06 and beyond
Australia	FY07 and beyond
France	FY09 and beyond
Germany	FY06 and beyond
Ireland	FY06 and beyond
Netherlands	FY05 and beyond
United Kingdom	FY08 and beyond

8. STOCKHOLDERS' EQUITY

Common Stock

Effective December 15, 2010, the Company has two classes of common stock (See Note 1). Each share of Class B Common Stock entitles the holder to one vote and each share of Class A Common Stock entitles the holder to 1/20th of one vote. On all matters, the Class A Common Stock and the Class B Common Stock will vote as a single class, except as otherwise required by applicable law. Neither the Class A Common Stock nor the Class B Common Stock will be convertible into the other, and there will be no restrictions on the transferability of either class.

The amount of any dividend payable in cash or non-cash property of the Company (other than a dividend payable solely in the Company's capital stock) with respect to each share of Class A Common Stock is equal to 120% of the value of any such dividend payable with respect to a share of Class B Common Stock, except for dividends declared for the purpose of distributing all or some of the proceeds received by the Company from any transaction determined by the Board to be a material transaction not in the ordinary course of business or for the purpose of effecting a spin-off of a subsidiary of the Company (in either case, such dividend will be paid ratably, on a per share basis, to all holders of Common Stock).

Dividends

On January 13, 2010, the Company's Board of Directors declared a quarterly dividend of $0.05 per share of common stock payable on April 26, 2010 to shareholders of record at the close of business on March 16, 2010. The dividend was payable in either cash or shares of the Company's common stock, at the election of each shareholder. Based on the shareholder election, the Company paid $0.6 million in cash and issued 17,000 shares of common stock at a fair value of $0.2 million.

On April 9, 2010, the Company's Board of Directors approved a quarterly dividend of $0.05 per share of common stock payable on July 12, 2010 to shareholders of record at the close of business on June 1, 2010. The dividend was payable in either cash or shares of the Company's common stock, at the election of each shareholder. Based on the shareholder election, the Company paid $0.7 million in cash and issued 13,000 shares of common stock at a fair value of $0.1 million.

On June 9, 2010, the Company's Board of Directors approved a quarterly dividend of $0.05 per share of common stock payable on October 12, 2010 to shareholders of record at the close of business on August 31, 2010. The dividend was payable in either cash or shares of the Company's common stock, at the election of each shareholder. Based on the shareholder election, the Company paid $0.7 million in cash and issued 15,000 shares of common stock at a fair value of $0.1 million.

On September 21, 2010, the Company's Board of Directors approved a quarterly dividend of $0.05 per share of common stock payable on January 10, 2011 to shareholders of record at the close of business on November 30, 2010. The dividend was payable in either cash or shares of the Company's common stock, at the election of each shareholder. Based on the shareholder election, the Company paid $0.3 million in cash and issued 53,000 shares of Class A common stock at a fair value of $0.5 million.

On December 14, 2010, the Company's Board of Directors declared a quarterly dividend of $0.06 per share of Class A common stock and $0.05 per share of Class B common stock payable on April 25, 2011 to shareholders of record at the close of business on March 15, 2011. QAD will pay its quarterly dividend in either cash or Class A shares of the Company's common stock, at the election of each shareholder.

Stock Repurchase Activity

In fiscal 2011 and fiscal 2010, the Company did not make any stock repurchases, and as of January 31, 2011, the Company does not have a stock repurchase program in place.

In fiscal 2009, the Company repurchased 131,000 shares of the Company's common stock for $16.84 per share for total cash consideration of $2.2 million including fees. The shares were repurchased as part of the stock repurchase program approved by the Company's Board of Directors in September 2007.

9. STOCK-BASED COMPENSATION

Stock Plans

On June 7, 2006, the shareholders approved the QAD Inc. 2006 Stock Incentive Program ("2006 Program"). The 2006 Program replaced the QAD 1997 Stock Incentive Program ("1997 Program"). The 2006 Program allows for equity awards in the form of incentive stock options, non-statutory stock options, restricted shares, rights to purchase stock, stock appreciation rights ("SARs") and other stock rights. In connection with the Recapitalization and pursuant to the terms of the 2006 Program, the maximum number of authorized shares of stock to be issued or granted as equity awards under the 2006 Program was proportionately reduced by 50% to account for the effective reverse stock split ratio, of which 80% consisted of Class A Common Stock and 20% consisted of Class B Common Stock. All references to the number of shares, stock options, restricted shares, stock appreciation rights and related per-share amounts of the Company's common stock have been restated to reflect the effect of the Recapitalization for all periods presented. The shareholders authorized a maximum of 4,150,000 shares to be issued under the 2006 Program, of which 3,320,000 are reserved for issuance as Class A Common Stock and 830,000 are reserved for issuance as Class B Common Stock. As of January 31, 2011, 1,010,000 Class A Common Shares and 252,000 Class B Common Shares were available for issuance.

After the 2006 Program was adopted, 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. Stock compensation expense, as required under SFAS 123R, is the same for stock-settled SARs and stock options. The Company also issues restricted stock units ("RSUs") beginning in fiscal 2008.

In connection with the Recapitalization, the Company's outstanding stock options, RSUs and SARs were adjusted to conform their terms to the Company's capital structure following implementation of the Recapitalization as follows: (i) each ten shares of stock covered by an outstanding option agreement, RSU or SAR agreement was converted, as nearly as possible, into equivalent rights to receive one share of Class B Common Stock and four shares of Class A Common Stock; and (ii) the exercise price per share of stock covered by an outstanding option agreement, RSU and SAR agreement shall be proportionately increased by 100% to account for the effective reverse stock split ratio of the Recapitalization. At January 31, 2011, outstanding under the 1997 Program, there were 370,000 non-statutory stock options to purchase Class A Common Stock and 91,000 non-statutory stock options to purchase Class B Common Stock. Effective with the adoption of the 2006 Program, no further awards were granted using the 1997 Program. At January 31, 2011, outstanding under the 2006 Program, there were 1,753,000 SARs to purchase Class A Common Stock and 439,000 SARs to purchase Class B Common Stock. In addition, at January 31, 2011, outstanding under the 2006 Program, there were 348,000 RSUs to purchase Class A Common Stock and 87,000 RSUs to purchase Class B Common Stock.

Under the 1997 Program and the 2006 Program, non-statutory stock options and SARs have generally been granted for a term of eight years, they 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 are generally released 25% after each year of service for four years and are contingent upon employment with the Company on the release date. Under the 2006 Program and 1997 Program, non-statutory stock options, SARs and RSUs to non-employee directors generally vest over three or four years and are contingent upon providing services to the Company.

Under both 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 programs may only be granted to a person who is an employee of the Company or one of its subsidiaries.

On August 12, 2009, the Company completed a one-time Stock Option and Stock Appreciation Right Exchange Program (the "Program"). Pursuant to the terms of the Program, eligible participants were able to exchange outstanding stock options and SARs granted under QAD's 1997 and 2006 Stock Incentive Programs for a reduced number of new SARs. The stock options and SARs that were eligible for the Program had a per share exercise price above the fair market value of QAD common stock as of the first business day following the close of the exchange offer period. The eligible stock options and SARs were exchanged for a reduced number of SARs based on predefined exchange ratios. The new SARs were issued at a per share exercise price equal to the fair market value of the Company's common stock on August 13, 2009, the date of issuance.

Stock options and SARs to purchase 1,689,000 shares of the Company's common stock were tendered and accepted in the exchange offer, which expired August 12, 2009. These surrendered equity awards represent 79% of the total shares subject to equity awards eligible for exchange in the exchange offer at the beginning of the offer period or 85% of the total shares subject to equity awards eligible for exchange in the exchange offer at the close of the offer period. The surrendered equity awards were cancelled as of August 13, 2009. In exchange for these surrendered equity awards, the Company issued 770,000 new SARs at an exercise price of $7.82 ("New SARs"). A total of 343,000 shares were returned to the pool of shares available for issuance. The Company did not incur any incremental stock-based compensation expense nor will it incur any incremental stock-based compensation expense in the future as a result of the Program.

The exchange ratios (the "Exchange Ratios") under the Program were determined at the commencement of the exchange period. The Exchange Ratios were intended to result in the issuance of New SARs with a fair value approximately equal to the fair value of the eligible stock options and SARs surrendered. The Black-Scholes-Merton valuation model was used to determine the fair value of the eligible stock options and SARs and the New SARs for purposes of determining the Exchange Ratios. Because the closing price of the Company's common stock increased over the course of the exchange period, the Exchange Ratios resulted in the issuance of New SARs with a fair value less than the fair value of the surrendered stock options and SARs. For purposes of the Black-Scholes-Merton valuation model, the expected life of the surrendered stock options and SARs was estimated to be the full remaining contractual term. The risk-free interest rate was based on the U.S. Treasury yield for a term consistent with the expected life. The volatility was based on the historical volatility of the Company's common stock for a period equal to the expected life. The dividend rate was based on the assumption of paying quarterly dividends at the same historical rate.

Stock- Based Compensation

The following table sets forth reported stock compensation expense included in the Company's Consolidated Statements of Operations for the fiscal years ended January 31, 2011, 2010 and 2009.

	Years Ended January 31,		
	2011	2010	2009
		(in thousands)	
Stock-based compensation expense:			
Cost of maintenance, service and other revenue	$ 940	$ 806	$ 1,042
Sales and marketing	1,076	829	1,330
Research and development	846	622	740
General and administrative	2,441	2,335	2,404
Total stock-based compensation expense	$ 5,303	$ 4,592	$ 5,516

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. There were $0.4 million, zero, and $0.1 million excess tax benefits recorded for equity awards exercised in the fiscal years ended January 31, 2011, 2010 and 2009, respectively.

Option/SAR Information

The weighted average assumptions used to value SARs are shown in the following table.

	Years Ended January 31,		
	2011	2010 (5)	2009
Expected life in years (1)	5.79	5.17	5.25
Risk free interest rate (2)	2.27%	2.06%	3.20%
Volatility (3)	61%	66%	50%
Dividend rate (4)	2.23%	2.40%	1.37%

(1) The expected life of the New SARs was estimated to be the full remaining contractual term. Excluding the effect of the New SARs granted as a result of the Program, the weighted average expected life in years in fiscal 2010 was 4.78.

(2) Excluding the effect of the New SARs granted as a result of the Program, the weighted average risk free rate in fiscal 2010 was 1.17%.

(3) Excluding the effect of the New SARs granted as a result of the Program, the weighted average volatility in fiscal 2010 was 69%.

(4) Excluding the effect of the New SARs granted as a result of the Program, the weighted average dividend rate in fiscal 2010 was 2.16%.

(5) The valuation of the New SARs granted as a result of the Program is included in the calculations above.

The following table summarizes the activity for outstanding options and SARs for the fiscal years ended January 31, 2011, 2010 and 2009:

	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, 2008	2,814	$ 15.96		
Granted	616	14.86		
Exercised	(97)	6.34		
Expired	(169)	16.76		
Forfeited	(180)	16.04		
Outstanding at January 31, 2009	2,984	$ 15.98		
Granted (1)	1,293	8.52		
Exercised	(45)	5.96		
Expired	(172)	15.60		
Forfeited	(157)	13.88		
Cancelled (2)	(1,689)	16.30		
Outstanding at January 31, 2010	2,214	$ 11.76		
Granted	683	8.95		
Exercised	(88)	6.44		
Expired	(58)	10.42		
Forfeited	(98)	8.93		
Outstanding at January 31, 2011	2,653	$ 11.33	4.9	$ 667
Vested and expected to vest at January 31, 2011 (3)	2,536	$ 11.43	4.8	$ 644
Vested and exercisable at January 31, 2011	1,289	$ 13.64	3.2	$ 356

(1) As a result of the Program a total of 770,000 SARs were granted during the third quarter of fiscal 2010 with an exercise price of $7.82.

(2) Options and SARs cancelled during the third quarter of fiscal 2010 as a part of the Program.

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

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, 2011 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, 2011. The total intrinsic value of options and SARs exercised in the years ended January 31, 2011, 2010 and 2009 was $0.3 million, $0.2 million and $0.6 million, respectively. The weighted average grant date fair value per share of SARs granted in the years ended January 31, 2011, 2010 and 2009 was $4.10, $5.42 and $6.34, respectively. Excluding the effect of the New SARs granted as a result of the Program, the weighted average grant date fair value per share of SARs granted in the year ended January 31, 2010 was $4.62.

At January 31, 2011, there was approximately $5.3 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 2.6 years.

RSU Information

The following table summarizes the activity for RSUs for the fiscal years ended January 31, 2011, 2010 and 2009:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value
Restricted stock at January 31, 2008	167	$ 16.34
Granted	282	11.50
Released (1)	(41)	16.60
Forfeited	(34)	14.98
Restricted stock at January 31, 2009	374	$ 12.78
Granted	208	8.40
Released (1)	(102)	13.30
Forfeited	(5)	13.48
Restricted stock at January 31, 2010	475	$ 10.74
Granted	128	8.81
Released (1)	(165)	11.37
Forfeited	(3)	8.75
Restricted stock at January 31, 2011	435	$ 10.02

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

The fair value of RSUs that were released in the fiscal years ended January 31, 2011, 2010 and 2009 was $1.5 million, $1.3 million and $0.7 million, respectively.

Total unrecognized compensation cost related to RSUs was approximately $3.3 million as of January 31, 2011. This cost is expected to be recognized over a period of approximately 2.3 years.

10. RESTRUCTURING CHARGES

In response to the difficult economic environment, the Company took steps to reduce its headcount and lower expenses beginning in the fourth quarter of fiscal 2009 and again in the second and third quarters of fiscal 2010. Related to these restructuring initiatives the Company reduced its headcount by 260 full-time positions, or approximately 15% of the workforce, and incurred costs related to employee severance and benefits of $6.5 million. The Company has not incurred any additional restructuring charges in fiscal 2011 and as of January 31, 2011, all plans are complete.

Restructuring charges included in the Consolidated Statements of Operations for the fiscal years ended January 31, 2010 and 2009 were as follows:

	Years Ended January 31,	
	2010	2009
	(in thousands)	
Cost of maintenance, services and other revenue	$ 1,054	$ 854
Sales and marketing	1,113	1,607
Research and development	633	590
General and administrative	316	300
Total restructuring charges	$ 3,116	$ 3,351

Restructuring Accruals

The activity in the Company's restructuring accrual for the fiscal years ended January 31, 2011, 2010 and 2009 is summarized as follows:

	Q4 Fiscal 2009 Restructuring Plan	Q2 Fiscal 2010 Restructuring Plan	Q3 Fiscal 2010 Restructuring Plan	Total
	(in thousands)			
Balance as of January 31, 2008	$ □	$ □	$ □	$ □
Employee severance pay and related expenses	3,351	□	□	3,351
Cash paid	(479)	□	□	(479)
Balance as of January 31, 2009	$ 2,872	$ □	$ □	$ 2,872
Employee severance pay and related expenses	819	1,496	927	3,242
Cash paid	(3,526)	(1,456)	(930)	(5,912)
(Reversal of) adjustment to previous charges	(92)	(43)	9	(126)
Impact of foreign currency translation	24	3	□	27
Balance as of January 31, 2010	$ 97	$ □	$ 6	$ 103
Cash paid	(93)	□	(6)	(99)
Impact of foreign currency translation	(4)	□	□	(4)
Balance as of January 31, 2011	$ □	$ □	$ □	$ □

11. 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 voluntarily 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 years 2011, 2010 and 2009 were $1.3 million, $1.2 million and $1.3 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 3% to 22%. These plans are funded at various times throughout the year according to plan provisions, with aggregate employer contributions of $3.3 million, $3.5 million and $3.8 million during fiscal years 2011, 2010 and 2009, respectively.

12. COMMITMENTS AND CONTINGENCIES

Lease Obligations

The Company leases certain office facilities, office equipment and automobiles under operating lease agreements. The leases generally provide that QAD pays taxes, insurance and maintenance expenses related to the leased assets. Total rent expense for fiscal years 2011, 2010 and 2009 was $7.1 million, $7.5 million and $8.5 million, respectively. Future minimum rental payments under non-cancelable operating lease commitments with terms of more than one year as of January 31, 2011 are as follows (in millions):

2012	$ 6.6
2013	3.9
2014	1.6
2015	0.8
2016	0.6
Thereafter	1.0
	14.5
Less sublease income	(0.2)
	$ 14.3

Exit Costs

The Company has been subleasing office space in Carpinteria, California related to the facilities vacated in fiscal 2005 when QAD moved to its new headquarters in Santa Barbara, California. This sublease activity resulted in exit costs, primarily due to declines in fair market value of estimated sublease income, of $0.2 million and $0.4 million for fiscal years 2010 and 2009, 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 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.

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.

13. BUSINESS SEGMENT INFORMATION

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

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

Capital expenditures and property and equipment, net are assigned by geographic region based on the location of each legal entity.

	Years Ended January 31,		
	2011	2010	2009
		(in thousands)	
Revenue:			
North America (1)	$ 93,145	$ 92,597	$ 114,447
EMEA	66,646	67,847	83,567
Asia Pacific	44,475	40,248	46,140
Latin America	15,746	14,539	18,589
	$ 220,012	$ 215,231	$ 262,743
Capital expenditures:			
North America	$ 873	$ 441	$ 3,608
EMEA	216	254	971
Asia Pacific	309	262	1,504
Latin America	34	6	255
	$ 1,432	$ 963	$ 6,338

	January 31,	
	2011	2010
	(in thousands)	
Property and equipment, net:		
North America	$ 28,943	$ 31,257
EMEA	3,835	4,470
Asia Pacific	785	1,217
Latin America	232	275
	$ 33,795	$ 37,219

(1) North America revenue includes sales into Canada, which accounted for approximately 4% of total revenue in fiscal years 2011, 2010 and 2009.

14. QUARTERLY INFORMATION (Unaudited)

	Quarter Ended			
	April 30	July 31	Oct. 31	Jan. 31(1)
	(in thousands, except per share data)			
Fiscal 2011				
Total revenue	$ 50,841	$ 51,305	$ 55,409	$ 62,457
Total costs and expenses	52,926	50,217	51,565	58,713
Gross margin	28,189	29,817	32,488	35,570
Operating (loss) income	(2,085)	1,088	3,844	3,744
Net (loss) income	(1,220)	315	1,673	1,943
Basic net (loss) income per share				
Class A	$ (0.08)	$ 0.02	$ 0.11	$ 0.13
Class B	(0.07)	0.02	0.09	0.11
Diluted net (loss) income per share				
Class A	(0.08)	0.02	0.10	0.12
Class B	(0.07)	0.02	0.09	0.10
Fiscal 2010				
Total revenue	$ 54,998	$ 51,310	$ 56,240	$ 52,683
Total costs and expenses	57,540	53,430	50,600	50,790
Gross margin	29,226	29,084	33,708	31,586
Operating (loss) income	(2,542)	(2,120)	5,640	1,893
Net (loss) income	(2,665)	(1,425)	4,754	685
Basic net (loss) income per share				
Class A	$ (0.18)	$ (0.10)	$ 0.32	$ 0.05
Class B	(0.15)	(0.08)	0.26	0.04
Diluted net (loss) income per share				
Class A	$ (0.18)	$ (0.10)	$ 0.30	$ 0.04
Class B	(0.15)	(0.08)	0.25	0.04

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(1) Financial results for the fourth quarter of fiscal 2011 include an immaterial correction of an error related to an accounting policy. Prior to the fourth quarter, the Company's policy was to defer costs and recognize them in proportion to revenue recognized in multiple-element revenue arrangements which, for revenue recognition purposes, are considered a single unit of accounting. In the fourth quarter of fiscal 2011, the Company began expensing those costs in the period incurred. The impact of this correction in the quarterly information for the quarter ended January 31, 2011, was an increase to costs of maintenance, service and other revenue of $1.6 million and a resulting decrease in net income of $1.1 million, or $0.07 and $0.06 per diluted Class A and B shares, respectively.

SCHEDULE II

SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

	Balance at Beginning of Period	Charged (Credited) to Statements of Operations	Write-Offs Net of, Recoveries	Impact of Foreign Currency Translation	Balance at End of Period
Year ended January 31, 2009					
Allowance for bad debt	1,288	989	(924)	(48)	1,305
Allowance for sales returns	2,369	676	(642)	(135)	2,268
Total allowance for doubtful accounts	$ 3,657	$ 1,665	$ (1,566)	$ (183)	$ 3,573
Year ended January 31, 2010					
Allowance for bad debt	1,305	1,413	(1,123)	62	1,657
Allowance for sales returns	2,268	612	(1,164)	69	1,785
Total allowance for doubtful accounts	$ 3,573	$ 2,025	$ (2,287)	$ 131	$ 3,442
Year ended January 31, 2011					
Allowance for bad debt	1,657	(186)	(328)	22	1,165
Allowance for sales returns	1,785	654	(968)	25	1,496
Total allowance for doubtful accounts	$ 3,442	$ 468	$ (1,296)	$ 47	$ 2,661

See accompanying report of independent registered public accounting firm.

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, 2011.

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.

Signature	Title	Date
/s/ Pamela M. Lopker Pamela M. Lopker	Chairman of the Board, President	April 15, 2011
/s/ Karl F. Lopker Karl F. Lopker	Director, Chief Executive Officer (Principal Executive Officer)	April 15, 2011
/s/ Daniel Lender Daniel Lender	Executive Vice President, Chief Financial Officer (Principal Financial Officer)	April 15, 2011
/s/ Kara Bellamy Kara Bellamy	Sr. Vice President, Corporate Controller (Chief Accounting Officer)	April 15, 2011
/s/ Scott Adelson Scott Adelson	Director	April 15, 2011
/s/ Terry Cunningham Terry Cunningham	Director	April 15, 2011
/s/ Peter R. van Cuylenburg Peter R. van Cuylenburg	Director	April 15, 2011
/s/ Tom O'Malia Tom O'Malia	Director	April 15, 2011
/s/ Lee Roberts Lee Roberts	Director	April 15, 2011

INDEX OF EXHIBITS

EXHIBIT NUMBER	EXHIBIT TITLE
3.1	Amended and Restated Certificate of Incorporation of the Registrant, filed with the Delaware Secretary of State on December 15, 2010*
3.2	Revised Bylaws of the Registrant *
4.1	Specimen Class A and Class B Common Stock Certificate*
10.1	QAD Inc. 1997 Stock Incentive Program (Incorporated by reference to Exhibit 10.2 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333- 28441))
10.1(a)	Forms of Agreement for QAD Inc. 1997 Stock Incentive Program (Incorporated by reference to Exhibit 10.1(a) of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)
10.2	QAD Inc. 2006 Stock Incentive Program (Incorporated by reference to Exhibit 4.4 of the Registrant's Registration Statement on Form S-8 (Commission File No. 333-137417))
10.2(a)	Forms of Agreement for QAD Inc. 2006 Stock Incentive Program (Incorporated by reference to Exhibit 10.2(a) of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)
10.3	Form of Indemnification Agreement with Directors and Executive Officers (Incorporated by reference to Exhibit 10.3 of the Registrant's Registration Statement on Form S-1 (Commission File No. 333- 28441))†
10.4	Executive Termination Policy (Incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)†
10.5	Change in Control Agreement for Karl Lopker (Incorporated by reference to Exhibit 10.5 of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)†
10.6	Change in Control Agreement for Pam Lopker (Incorporated by reference to Exhibit 10.6 of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)†
10.7	Offer letter between the Registrant and Daniel Lender dated October 10, 2008 (Incorporated by reference to Exhibit 10.72 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 31, 2008)†
10.7(a)	Change in Control Agreement for Daniel Lender (Incorporated by reference to Exhibit 10.7(a) of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)†
10.8	Promissory Note between the Registrant and Mid-State Bank & Trust effective as of July 28, 2004 (Incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 31, 2004)
10.9	Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 10, 2008 (Incorporated by reference to Exhibit 10.71 of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2008)
10.9(a)	Amendment and Waiver to the Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 10, 2009 (Incorporated by reference to Exhibit 10.9(a) of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2009)
10.9(b)	Second Amendment to Credit Agreement between the Registrant and Bank of America, N.A. effective as of April 11, 2011*

10.10	Change in Control Agreement for Gordon Fleming (Incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the fiscal year ended January 31, 2010)†
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*

_____

(*) Indicates the document is filed herewith.

(†) Indicates a management contract or compensatory plan or arrangement required to be filed as an exhibit.

Exhibit 3.1

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE RESTATED CERTIFICATE OF "QAD INC.", FILED IN THIS OFFICE ON THE FOURTEENTH DAY OF DECEMBER, A.D. 2010, AT 12:57 O'CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS.

AND I DO HEREBY FURTHER CERTIFY THAT THE EFFECTIVE DATE OF THE AFORESAID RESTATED CERTIFICATE IS THE FIFTEENTH DAY OF DECEMBER, A.D. 2010, AT 5 O'CLOCK P.M.

/s/ Jeffrey W. Bullock

Jeffrey W. Bullock, Secretary of State

2751720 8100
101185236

AUTHENTICATION: *8425620*

DATE: *12-14-10*

You may verify this certificate online
at corp. delaware . gov/authver . shtml

State of Delaware
Secretary of State
Division of Corporations
Delivered 01:00 PM 12/14/2010
FILED 12:57 PM 12/14/2010
SRV 101185236 - 2751720 FILE

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

QAD INC.

QAD Inc., a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware, does hereby certify that:

I. The present name of the corporation is QAD Inc., a Delaware corporation (the **"Corporation").** The original name of the Corporation was QAD Inc. and the Certificate of Incorporation of the Corporation was originally filed with the Secretary of State of Delaware on May 15, 1997.

II. This Amended and Restated Certificate of Incorporation amends, restates and integrates the provisions of the Certificate of Incorporation (as heretofore amended). The Certificate of Incorporation of this Corporation shall be amended and restated to read in its entirety as follows:

ARTICLE I

The name of the corporation is QAD Inc. (hereinafter referred to as the **"Corporation").**

ARTICLE II

The address of the Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, New Castle County, Wilmington, Delaware 19808,. The name of its registered agent at such address is Corporation Service Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (hereinafter referred to as the **"GCL"**).

ARTICLE IV

Section 1. Authorized Shares

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is eighty million (80,000,000) shares, consisting of (i) seventy-one million (71,000,000) shares of Class A Common Stock, par value $0.001 per share (the **"Class** A **Common Stock");** (ii) four million (4,000,000) shares of Class B Common Stock, par value $0.001 per share (the **"Class B Common Stock"** and together with the Class A Common Stock, the **"Common Stock");** and (iii) five million (5,000,000) shares of preferred stock, par value $0.001 per share (the **"Preferred Stock").**

Upon this Amended and Restated Certificate of Incorporation of the Corporation becoming effective pursuant to the GCL (the **"Effective Time"),** and without any further action on the part of the Corporation or its stockholders, each whole share of the Corporation's common stock, $0.001 par value per share, issued and outstanding or held by the Corporation in treasury immediately prior to the Effective Time (the **"Old Common Stock"),** shall automatically be reclassified, changed and converted into 0.10 fully paid and non-assessable shares of Class B Common Stock, and certificates previously representing shares of Old Common Stock shall represent the appropriate number of whole shares of Class B Common Stock, into which such Old Common Stock shall have been reclassified, changed and converted pursuant to this Amended and Restated Certificate of Incorporation. Notwithstanding the foregoing, no fractional shares of Class B Common Stock shall be issued, and any stockholder who would otherwise be entitled to receive a fraction of a share of Class B Common Stock shall, in lieu of receiving such fractional share, be entitled to receive a cash payment equal to such fraction multiplied by the fair value of a share of Class B Common Stock as of the Effective Time, as determined in good faith by the Board of Directors of the Corporation (hereinafter referred to as the **"Board of Directors").**

Section 2. Designations, Powers and Preferences

A. Preferred Stock.

The Board of Directors is hereby expressly authorized at any time, and from time to time, to create and provide for the issuance of shares of Preferred Stock in one or more series and, by filing a certificate pursuant to the GCL (hereinafter referred to as a **"Preferred Stock Designation"),** to establish the number of shares to be included in each such series, and to fix the designations, preferences and relative, participating, optional or other special rights of the shares of each such series and the qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors, including, but not limited to, the following:

(i) the number of shares of any series and the designation to distinguish the shares of such series from the shares of all other series;

(ii) whether dividends, if any, shall be cumulative or noncumulative, the dividend rate of such series, and the dates and preferences of dividends on such series;

(iii) the redemption provisions, if any, applicable to such series, including the redemption price or prices to be paid;

(iv) the terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series;

(v) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes of, any other series of any class or classes of capital stock of, or any other security of, the Corporation or any other corporation, and, if provision be made for any such conversion or exchange, the times, prices, rates, adjustments and any other terms and conditions of such conversion or exchange;

(vi) the voting powers, if any, and whether such voting powers are full or limited in such series;

(vii) the restrictions, if any, on the issue or reissue of shares of the same series or of any other class or series;

(viii) the amounts payable on and the preferences, if any, of the shares of such series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation; and

(ix) any other relative rights, preferences and limitations of that series.

B. Common Stock.

The Common Stock shall be subject to the express terms of any series of Preferred Stock set forth in the Preferred Stock Designation relating thereto. The powers, preferences and rights of the Class A Common Stock and the Class B Common Stock, and the qualifications, limitations or restrictions thereof, shall be in all respects identical, except as otherwise required by law or expressly provided in this Amended and Restated Certificate of Incorporation.

(a) *Voting.* Unless otherwise required by law or as expressly provided in this Amended and Restated Certificate of Incorporation, the holders of Class A Common Stock and Class B Common Stock shall vote together as a single class on all matters submitted to the stockholders at all meetings of the stockholders and with respect to any action by written consent in lieu of a meeting. Each record holder of Class A Common Stock shall be entitled to 1/20th of one vote for each share of Class A Common Stock standing in such person's name on the stock transfer records of the Corporation in connection with the election of directors and all other actions submitted to a vote of stockholders at all meetings of the st ockholders and with respect to any action by written consent in lieu of a meeting, and each record holder of Class B Common Stock shall be entitled to one vote for each share of Class B Common Stock standing in such person's name on the stock transfer records of the Corporation in connection with the election of directors and all other actions submitted to a vote of stockholders at all meetings of the stockholders and with respect to any action by written consent in lieu of a meeting. In addition to any vote required by law or any other provision in this Amended and Restated Certificate of Incorporation, the affirmative vote or consent of the holders of a majority of the shares of Class A Conunon Stock, voting separately as a single class shall be required in order to amend this Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Class B Common Stock or effect any reverse stock split that would have any adverse effect on the holders of the Class A Common Stock.

(b) *Dividends and Other Distributions.*

(i) The record holders of the Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board of Directors out of funds legally available therefor.

(ii) No dividend may be paid on one class of Common Stock unless a dividend is paid simultaneously on the other class of Common Stock, in accordance with this Section 2(B)(b).

(iii) If the Board of Directors determines to provide the record holders of one class of Common Stock the option to receive a dividend in cash or in capital stock of the Corporation, the same option must be simultaneously provided to the other class of Common Stock, subject to the requirement that the record holders of Class A Common Stock receive a greater amount of such dividend as provided in paragraph (iv) below.

(iv) Except as provided in paragraph (v) below, the amount of any dividend payable in cash or non-cash property of the Corporation (or any dividend pursuant to which the record holders of Common Stock have been granted the option to receive such dividend in the form of cash) with respect to a share of Class A Conmion Stock shall be equal to 120% of the amount of such dividend payable with respect to a share of Class B Common Stock, if and when declared by the Board of Directors out of funds legally available therefore; provided, however, any dividend payable in cash or non-cash property of the Corporation, if and when declared by the Board of Directors, for the purpose of either (A) distributing all or some portion of the proceeds received by the Corporation from any transaction determined by the Board of Directors to be a material transaction not in the ordinary course of business or (B) effecting a spin-off of a subsidiary of the Corporation, shall be paid ratably, on a per share basis, to all holders of Class A Common Stock and Class B Common Stock.

(v) Dividends payable on the Common Stock only in shares of capital stock of the Corporation (or rights to acquire capital stock of the Corporation) shall only be made as follows: (A) in shares of Class A Common Stock (or rights to acquire Class A Common Stock) to the record holders of Class A Common Stock and to the record holders of Class B Common Stock; (B) solely in connection with a proportionate dividend to effectuate a split of the Common Stock, in shares of Class A Common Stock to the record holders of Class A Common Stock and in shares of Class B Common Stock to the record holders of Class B Common Stock; or (C) in any other authorized class or series of capital stock (or rights to acquire any other authorized class or series of capital stock of the Corporation) to the record holders of Class A Common Stock and to the record holders of Class B Common Stock.

(vi) Whenever a dividend or distribution provided for in this Amended and Restated Certificate of Incorporation shall be payable in non-cash property or shares of capital stock of the Corporation, the value of such dividend or distribution shall be deemed to be the fair value of such non-cash property or capital stock of the Corporation, as determined in good faith by the Board of Directors.

(c) *Convertibility.* Except as described below, neither the Class A Common Stock nor the Class B Common Stock shall be convertible into another class of Common Stock or any other security of the Corporation.

(i) All outstanding shares of Class A Common Stock may be converted into shares of Class B Common Stock on a share-for-share basis by resolution of the Board of Directors if, as a result of any statute, law, regulation, court order, legal process or rule or rule interpretation of a national securities exchange, either the Class A Common Stock or Class B Common Stock is, or both are, excluded from, or the Board of Directors determines that either the Class A Common Stock or Class B Common Stock is, or both are, subject to exclusion from, listing on the Nasdaq Global Select Market or, if such shares are listed on another national securities exchange, from trading on the principal national securities exchange on which such securities are traded. In making such determination, the Board of Directors may conclusively rely on any information or documentation available to it, including filings made with the Securities and Exchange Commission, any national securities exchange, stock market or any other governmental or regulatory agency or any written instrument purporting to be authentic.

(ii) In the event of any conversion of the Class A Common Stock pursuant to subsection (c)(i) above, certificates which formerly represented outstanding shares of Class A Common Stock will thereafter be deemed to represent a like number of shares of Class B Common Stock and all shares of Common Stock authorized by this Amended and Restated Certificate of Incorporation shall be deemed to be shares of Class B Common Stock.

(d) *Mergers or Sales of Assets.* The holders of Class A Common Stock shall be entitled to receive an amount and form of consideration per share no less favorable than the per share consideration, if any, received by any holder of the Class B Common Stock in any merger, business combination or consolidation of the Corporation (whether or not the Corporation is the surviving entity) or any subsidiary of the Corporation, or any sale, lease or exchange of all or substantially all of the assets of the Corporation or any subsidiary of the Corporation (whether or not executed by way of a single transaction or a series of related transactions).

(e) *Liquidation or Dissolution.* Upon the liquidation, dissolution or winding up of the Corporation, the holders of Class A Common Stock and the holders of Class B Common Stock shall share ratably, on a per share basis, in the net assets of the Corporation available for distribution to the holders of Common Stock. If any assets of the Corporation distributed to stockholders in connection with any liquidation, dissolution, or winding up of the Corporation are other than cash, then the value of such assets shall be their fair value as determined by the Board of Directors in good faith.

(f) *Repurchases.* The Corporation shall have the power to purchase, repurchase, exchange, redeem or otherwise acquire shares of either Class A Common Stock or Class B Common Stock out of funds legally available therefore at any time for such consideration as the Board of Directors determines in its business judgment, whether or not less consideration could be paid upon the purchase of the same number of shares of another class of Common Stock. Notwithstanding the foregoing, if at any time in the future the Corporation publicly announces an issuer self tender offer to concurrently purchase shares of both Class A Common Stock and Class B Common Stock, then the Corporation shall tender to purchase Class A Common Stock at a per share price and on terms no less favorable than the per share price and terms tendered for Class B Common Stock.

(g) *Subdivision, Combination and Reclassification of Shares.* If the Corporation shall in any manner split or subdivide or combine the outstanding shares of Class A Common Stock or Class B Common Stock, the outstanding shares of the other such class of Common Stock shall be proportionally split, subdivided or combined in the same manner and on the same basis as the outstanding shares of the other class of Common Stock have been split, subdivided or combined. Other than with respect to a reclassification in connection with a split, subdivision or combination of shares of outstanding Common Stock as provided above, the holders of Class A Common Stock shall be entitled to be treated identically to the holders of Class B Common Stock on a per share basis in any reclassification or recapitalization of the Common Stock.

(h) *No Preemptive Rights.* No holder of Class A Common Stock or Class B Common Stock shall, by reason of such holding, have any preemptive right to subscribe to any additional issue of stock of any class or series of the Corporation or to any security of the Corporation convertible into such stock.

(i) *Amendment.* In addition to any vote required by law or this Amended and Restated Certificate of Incorporation, the affirmative vote of the holders of a majority of the outstanding shares of Class A Common Stock, voting separately as a single class, shall be required in order to amend (i) any of the powers, preferences or special rights of the Class A Common Stock (whether by merger, consolidation or otherwise) or (ii) any of the powers, preferences or special rights of the Class B Common Stock (whether by merger, consolidation or otherwise) to the extent that such amendment would adversely affect the holders of the Class A Common Stock.

(j) *Fractional Shares.* No fractional shares of Common Stock shall be issued in connection with any stock dividend, stock split, combination, reclassification or conversion of the Common Stock. In lieu of any fractional shares to which the holder would otherwise be entitled, the Corporation shall pay cash equal to such fraction multiplied by the fair value of a share of Common Stock as determined in good faith by the Board of Directors.

ARTICLE V

A. In furtherance, and not in limitation, of the powers conferred by law, the Board of Directors is expressly authorized and empowered:

(i) to adopt, amend or repeal the Bylaws of the Corporation, provided, however, that any Bylaws adopted by the Board of Directors under the powers hereby conferred may be amended or repealed by Ihe Board of Directors or by the stockholders having voting power with respect thereto; and

(ii) from time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the Corporation, or any of them, shall be open to inspection of stockholders; and, except as so determined, or as expressly provided in this Amended and Restated Certificate of Incorporation or in any Preferred Stock Designation, no stockholder shall have any right to inspect any account, book or document of the Corporation other than such rights as may be conferred by law.

B. The Corporation may in its Bylaws confer powers upon the Board of Directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon the Board of Directors by law.

ARTICLE VI

A. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Amended and Restated Certificate of Incorporation to elect additional directors under specified circumstances, the number of directors of the Corporation shall not be less than 3 nor more than 9 and shall be fixed from time to time in the manner described in the Bylaws.

B. Unless and except to the extent that the Bylaws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

C. At each annual election of Directors, the Directors, other than those who may be elected by holders of shares of one or more outstanding series of Preferred Stock under circumstances as shall be provided by this Amended and Restated Certificate of Incorporation, shall hold office until the next annual election of Directors and until their respective successors shall have been duly elected and qualified, subject, however, to prior death, resignation or removal in accordance with this Amended and Restated Certificate of Incorporation and the Bylaws of the Corporation.

D. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Amended and Restated Certificate of Incorporation to elect additional directors under specified circumstances, any director may be removed from office at any time with or without cause by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding Voting Stock, voting together as a single class. For the purposes of this Amended and Restated Certificate of Incorporation, **"Voting Stock"** shall mean the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors.

E. Advance notice of stockholder nominations for the election of directors shall be given in the manner provided in the Bylaws of the Corporation.

F. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in this Amended and Restated Certificate of Incorporation to elect additional directors under specified circumstances, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, and directors so chosen shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor shall have been duly elected and qualified.

ARTICLE VII

A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the directors duty of loyalty to the Corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the GCL; or (iv) for any transaction from which the director derived an improper personal benefit. No amendment or repeal of this Article VII shall adversely affect any right or protection of a director of the Corporation existing hereunder in respect of any act or omission occurring prior to such amendment or repeal.

ARTICLE VIII

Except as may be expressly provided below in this Article VIII, the Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation or a Preferred Stock Designation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed herein or by law, and all powers, preferences and rights of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Amended and Restated Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article VIII; provided, however, that no Preferred Stock Designation shall be amended after the issuance of any shares of the series of Preferred Stock created thereby, except in accordance with the terms of such Preferred Stock Designation and the requirements of law; and provided, further, that the affirmative vote of at least 66 ⅔ percent of the voting power of the then outstanding Voting Stock, voting together as a single class, shall be required to amend, repeal or adopt any provision inconsistent with the provisions of Article V, Article VI or Article VIII of this Amended and Restated Certificate of Incorporation, unless such amendments or changes are approved by a majority of the directors of the Corporation not affiliated or associated with any person, other than Pamela M. Lopker or Karl F. Lopker, holding (or which has announced an intention to acquire) 20% or more of the voting power of the then outstanding Voting Stock, voting together as a single class.

* * *

This Amended and Restated Certificate of Incorporation shall become effective at 5:00 p.m. (EST) on December 15, 2010.

The foregoing Amended and Restated Certificate of Incorporation has been duly adopted by this Corporation's Board of Directors and stockholders in accordance with the applicable provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, this Amended and Restated Certificate of Incorporation has been executed by a duly authorized officer of the Corporation on this 14th day of December, 2010.

QAD Inc.

/s/ Karl F. Lopker

Karl F. Lopker, Chief Executive Officer

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Exhibit 3.2

BYLAWS

OF

QAD INC.

TABLE OF CONTENTS

ARTICLE I

Office and Records

Section 1.1	Delaware Office	4
Section 1.2	Other Offices	4
Section 1.3	Books and Records	4

ARTICLE II

Stockholders

Section 2.1	Annual Meeting	4
Section 2.2	Special Meetings	4
Section 2.3	Notice of Meetings	5
Section 2.4	Quorum	5
Section 2.5	Voting	5
Section 2.6	Proxies	6
Section 2.7	Notice of Stockholder Business and Nominations	6
Section 2.8	Inspectors of Elections; Opening and Closing the Polls	8
Section 2.9	List of Stockholders	8
Section 2.10	Written Consent of Stockholders in Lieu of Meeting	8

ARTICLE III

Directors

Section 3.1	General Powers	9
Section 3.2	Number, Tenure and Qualifications	9
Section 3.3	Vacancies and Newly Created Directorships	10
Section 3.4	Resignation	10
Section 3.5	Removal	10
Section 3.6	Meetings	10
Section 3.7	Quorum and Voting	11
Section 3.8	Written Consent of Directors in Lieu of a Meeting	11
Section 3.9	Compensation	11
Section 3.10	Committees of the Board of Directors	11

ARTICLE IV

Officers

Section 4.1	Elected Officers	12
Section 4.2	Election and Term of Office	12
Section 4.3	Resignation and Removal	12
Section 4.4	Compensation and Bond	12
Section 4.5	Chairman of the Board	12
Section 4.6	President	13
Section 4.7	Vice Presidents	13

Section 4.8	Treasurer	13
Section 4.9	Secretary	13
Section 4.10	Assistant Treasurers	13
Section 4.11	Assistant Secretaries	13
Section 4.12	Delegation of Duties	13

ARTICLE V

Indemnification and Insurance

Section 5.1	Right to Indemnification	14
Section 5.2	Right to advancement of Expenses	14
Section 5.3	Right of Indemnitee to Bring Suit	14
Section 5.4	Non-Exclusivity of Rights	15
Section 5.5	Insurance	15
Section 5.6	Indemnification of Employees and Agents of the Corporation	15
Section 5.7	Contract Rights	15

ARTICLE VI

Common Stock

Section 6.1	Certificates	15
Section 6.2	Transfers of Stock	16
Section 6.3	Lost, Stolen or Destroyed Certificates	16
Section 6.4	Stockholder Record Date	16

ARTICLE VII

Seal

Section 7.1	Seal	17

ARTICLE VIII

Waiver of Notice

Section 8.1	Waiver of Notice	17

ARTICLE IX

Checks, Notes, Drafts, Etc.

Section 9.1	Checks, Notes, Drafts, Etc.	17

ARTICLE X

Amendments

Section 10.1	Amendments	18

BYLAWS
OF
QAD INC.

ARTICLE I

Office and Records

Section 1.1 Delaware Office. The principal office of the Corporation in the State of Delaware shall be located in the City of Wilmington, County of New Castle, and the name and address of its registered agent is Corporation Services Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

Section 1.2 Other Offices. The Corporation may have such other offices, either within or without the State of Delaware, as the Board of Directors may designate or as the business of the Corporation may from time to time require.

Section 1.3 Books and Records. The books and records of the Corporation may be kept at the Corporation's principal executive offices in Carpinteria, California or at such other locations inside or outside the State of Delaware as may from time to time be designated by the Board of Directors.

ARTICLE II

Stockholders

Section 2.1 Annual Meeting. The annual meeting of stockholders of the Corporation shall be held on the date designated by the Board of Directors; provided, however, that the annual meeting of stockholders of this Corporation shall be held (i) in the case of the initial annual meeting of stockholders, not later than 13 months after the date of incorporation of this Corporation or (ii) in the case of any subsequent annual meeting of stockholders, not later than 13 months after the date of the last annual meeting of stockholders of the Corporation. The annual meeting in each year shall be held at 10:00 A.M., local time, at the principal executive offices of the Corporation, or at such other date, time and/or place within or without the State of Delaware as may be fixed by the Board of Directors.

Section 2.2 Special Meetings. Subject to the rights of the holders of any series of preferred stock, par value $.001 per share, of the Corporation (the "Preferred Stock"), or any other series or class of stock as set forth in the Certificate of Incorporation (the "Certificate of Incorporation") to elect additional directors under specified circumstances, a special meeting of holders of stock of the Corporation entitled to vote on any business to be considered at any such meeting may be called only by the President of the Corporation, the Chief Executive Officer or the Corporation or the Chairman of the Board of the corporation, or shall be called by the Secretary of the Corporation at the request of the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors of the Corporation. The Board of Directors may designate the place of meeting for any special meeting of the stockholders, and if no such designation is made, the place of meeting shall be the principal executive offices of the Corporation.

Section 2.3 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, unless notice is waived as provided in Section 8.1 of these Bylaws, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose for which the meeting is called.

Unless otherwise provided by law, and except as to any stockholder duly waiving notice, the written notice of any meeting shall be given personally or by mail, not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at his or her address as it appears on the records of the Corporation. Any previously scheduled meeting of the stockholders may be postponed by resolution of the Board of Directors upon public notice given prior to the time previously scheduled for such meeting of stockholders.

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting. If, however, the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder or record entitled to vote at the meeting.

Section 2.4 Quorum. Except as otherwise provided by law or by the Certificate of Incorporation or by these Bylaws, at any meeting of stockholders the holders of a majority of the voting power of the outstanding shares of the Corporation entitled to vote generally in the election of directors (the "Voting Stock"), either present or represented by proxy, shall constitute a quorum for the transaction of any business at such meeting, except that when specified business is to be voted on by a class or series voting as a class, the holders of a majority of the shares of such class or series shall constitute a quorum for the transaction of such business. The chairman of the meeting or a majority of the voting power of the shares of Voting Stock so represented may adjourn the meeting from time to time, whether or not there is such a quorum (or in the case of specified business to be voted on as a class or series, the chairman or a majority of the shares of such class or series so represented may adjourn the meeting with respect to such specified business). No notice of the time and place of adjourned meetings need be given except as provided in the last paragraph of Section 2.3 of these Bylaws. The stockholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.5 Voting. Except as otherwise set forth in the Certificate of Incorporation with respect to the right of any holder of any series of Preferred Stock or any other series or class of stock to elect additional directors under specified circumstances, whenever directors are to be elected at a meeting, they shall be elected by a plurality of the votes cast at the meeting by the holders of stock entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of stockholders at a meeting, it shall, except as otherwise required by law of by the Certificate of Incorporation or by these Bylaws, be authorized by a majority of the votes cast with respect thereto at the meeting (including abstentions) by the holders of stock entitled to vote thereon.

Except as otherwise proved by law, or by the Certificate of Incorporation, each holder of record of stock of the Corporation entitled to vote on any matter at any meeting of stockholders shall be entitled to one vote for each share of such stock standing in the name of such holder on the stock ledger of the Corporation on the record date for the determination of the stockholders entitled to vote at the meeting.

Upon the demand of any stockholder entitled to vote, the vote for directors or the vote on any other matter at a meeting shall be by written ballot, but otherwise the method of voting and the manner in which votes are counted shall be discretionary with the presiding officer at the meeting.

Section 2.6 Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him or her by proxy, but no such proxy shall be voted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Every proxy shall be signed by the stockholder or by his duly authorized attorney. Such proxy must be filed with the Secretary of the Corporation or his or her representative at or before the time of the meeting.

Section 2.7 Notice of Stockholder Business and Nominations.

(A) Annual Meeting of Stockholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) by or at the direction of the Chairman of the Board or the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors or (b) by any stockholder of the Corporation who is entitled to vote at the meeting with respect to the election of directors or the business to be proposed by such stockholder, as the case may be, who complies with the notice of procedures set forth in clauses (2) and (3) of paragraph (A) of this Section 2.7 and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (b) of paragraph (A) (1) of this Section 2.7, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law (the "GCL"). To be timely, a stockholder's notice shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not less than ninety (90) days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than thirty (30) days, or delayed by more than sixty (60) days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the one hundred and twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the sixtieth (60th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this Section 2.7 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty (80) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by paragraph (A) (2) of this Section 2.7 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(B) Special Meeting of Stockholders. Nomination of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (i) by or at the direction of the Chairman of the Board of the Corporation or the Board of Directors pursuant to a resolution adopted by a majority of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote at the meeting with respect to the election of directors, who complies with the notice procedures set forth in this paragraph (B) and who is a stockholder of record at the time such notice is delivered to the Secretary of the Corporation as provided below. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice as required by paragraph (A) (2) of this Section 2.7 shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Only persons who are nominated in accordance with the procedures set forth in this Section 2.7 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 2.7.

(2) Except as otherwise provided by law, the Certificate of Incorporation or this Section 2.7, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section 2.7 and, if any proposed nomination or business is not in compliance with this Section 2.7, to declare that such defective nomination or proposal shall be disregarded.

(3) For purposes of this Section 2.7, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15 (d) of the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 2.7, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.7. Nothing in this Section 2.7 shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy materials with respect to a meeting of stockholders pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect directors under specified circumstances or to consent to specific actions taken by the Corporation.

Section 2.8 Inspector of Elections; Opening and Closing the Polls.

(A) The Board of Directors by resolution shall appoint one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representative of the Corporation, to act at the meeting and make a written report thereof. One or more persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed to act, or if all inspectors or alternates who have been appointed are unable to act, at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging his or her duties, shall take and sign an oath faithfully to execute the duties of his or her ability. The inspectors shall have the duties prescribed by the GCL.

(B) The chairman of the meeting shall fix and announce at the meeting the time of the opening and the closing of the polls for each matter upon which the stockholder will vote at a meeting.

Section 2.9 List of Stockholders. The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote of the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by this Section or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.10 Written Consent of Stockholders in Lieu of Meeting. Any action required by the GCL to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt written notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Any such written consent may be given by one or any number of substantially concurrent written instruments of substantially similar tenor signed by such stockholders, in person or by attorney or proxy duly appointed in writing, and filed with the Secretary or an Assistant Secretary of the Corporation. Any such written consent shall be effective as of the effective date thereof as specified therein, provided that such date is not more than sixty (60) days prior to the date such written consent is filed as aforesaid, or, if no such date is so specified, on the date such written consent is filed as aforesaid.

ARTICLE III

Directors

Section 3.1 General Powers. The business and affairs of the Corporation shall be managed by or under the direction of its Board of Directors. In addition to the powers and authorities by these Bylaws expressly conferred upon it, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these Bylaws required to be exercised or done by the stockholders.

Section 3.2 Number, Tenure and Qualifications. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect directors under specified circumstances, the number of directors shall be fixed from time to time exclusively pursuant to a resolution adopted by a majority of the Board of Directors, but shall consist of not more than nine (9) nor less than three (3) directors.

The directors, other than those who may be elected by the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation, shall be classified with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible, and designated as Class I, Class II and Class III. Each Director of the Corporation shall serve for a term ending on the third annual meeting following the annual meeting at which such Director was elected; provided, however, that the Directors first appointed to Class I shall hold office for a term expiring at the annual meeting of the stockholders immediately following the date of their designation as Class I Directors; the Directors first appointed to Class II shall hold office for a term expiring at the second annual meeting of the stockholders following the date of their designation as Class II Directors; and the Directors first appointed to Class III shall hold office for a term expiring at the third annual meeting of the stockholders following the date of their designation as Class III Directors. At each annual election of Directors of the Corporation, until the annual election of Directors in 2006, such Directors chosen to succeed those whose terms then expire shall be of the same class as the Directors of the Corporation they succeed. The terms of office of all Directors who are in office immediately prior to the closing of the polls for the annual election of Directors in 2006 shall expire at such time. At each annual election of Directors beginning with the 2006 annual election of Directors, the Directors shall not be classified, and the Directors, other than those who may be elected by holders of shares of one or more outstanding series of Preferred Stock under circumstances as shall be provided by the Certificate of Incorporation or by any provision established pursuant to Article Sixth of the Certificate of Incorporation, shall hold office until the next annual election of Directors and until their respective successors shall have been duly elected and qualified, subject, however, to prior death, resignation or removal in accordance with the Certificate of Incorporation or these Bylaws.

Section 3.3 Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect additional directors under specified circumstances, vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, and newly created directorships resulting from any increase in the authorized number of directors, may be filled only by the affirmative vote of a majority of the remaining directors, though less than a quorum of the Board of Directors, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires and until such director's successor shall have been duly elected and qualified. No decrease in the number of authorized directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.4 Resignation. Any director may resign at any time upon written notice to the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

Section 3.5 Removal. Subject to the rights of the holders of any series of Preferred Stock or any other series or class of stock as set forth in the Certificate of Incorporation to elect additional directors under specified circumstances, any director may be removed from office at any time for cause, by the affirmative vote of the holders of at least a majority of the voting power of the then outstanding voting stock, voting together as a single class.

Section 3.5 Meetings. Meetings of the Board of Directors, regular or special, may be held at any place within or without the State of Delaware. Members of the Board of Directors, or of any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting. An annual meeting of the Board of Directors shall be held at the same place and immediately preceding or following each annual meeting of stockholders, and no further notice thereof need be given other than this Bylaw. The Board of Directors may fix times and places for additional regular meetings of the Board of Directors and no further notice of such meetings need be given. A special meeting of the Board of Directors shall be held whenever called by the President of the Corporation, the Chief Executive Officer of the Corporation or the Chairman of the Board of the Corporation, or by a majority of the Board of Directors, at such time and place as shall be specified in the notice or waiver thereof. The person or persons authorized to call special meetings of the Board of Directors may fix the place and time of the meetings. Notice of any special meeting shall be given to each director at his or her business or residence in writing or by telegram or by telephone communication or by electronic mail. If mailed, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least five (5) days before such meeting. If by telegram, such notice shall be deemed adequately delivered when the telegram is delivered to the telegraph company at least twenty-four hours before such meeting. If by facsimile transmission or by electronic mail, such notice shall be transmitted at least twenty-four hours before such meeting. If by telephone, the notice shall be given at least twelve hours prior to the time set for the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting, except for amendments to these Bylaws as provided under Section 10.1 of these Bylaws.

Section 3.7 Quorum and Voting . A whole number of directors equal to at least a majority of the Board of Directors shall constitute a quorum for the transaction of Business at any meeting of the Board of Directors, but if there be less than a quorum, a majority of the directors present may adjourn the meeting from time to time, and no further notice thereof need be given other than announcement at the meeting which shall be so adjourned. Except as otherwise provided by law, by the Certificate of Incorporation, or by these Bylaws, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 3.8 Written Consent of Directors in Lieu of a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or of such committee.

Section 3.9 Compensation. Directors may receive compensation for services to the Corporation in their capacities as directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board of Directors.

Section 3.10 Committees of the Board of Directors. The Board of Directors may from time to time, by resolution passed by majority of the Board of Directors, designate one or more committees, each committee to consist of one or more directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The resolution of the Board of Directors may, in addition or alternatively, provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution or the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it, except as otherwise provided by law. Unless the resolution of the Board of Directors expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock. Any such committee may adopt rules governing the method of calling and time and place of holding its meetings. Unless otherwise provided by the Board of Directors, a majority of any such committee (or the member thereof, if only one) shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each such committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any and all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passes by a majority of the Board of Directors.

ARTICLE IV

Officers

Section 4.1 Elected Officers. The elected officers of the corporation shall be a Chairman of the Board, a President, a Secretary and a Treasurer, and may also include one or more Vice Presidents, one or more Assistant Secretaries and one or more Assistant Treasurers. The duties of the Office of Treasurer shall be assumed by the Chief Financial Officer of the Corporation who shall be an elected officer of the Corporation. All officers chosen by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article IV, together with such other powers and duties as from time to time may be conferred by the Board of Directors or any committee thereof. The Chairman of the Board shall be chosen from among the directors. Any number of such offices may be held by the same person, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. The Board of Directors may appoint, and may delegate power to appoint, such other officers, agents and employees as it may deem necessary or proper, who shall hold their offices or positions for such terms, have such authority and perform such duties as may from time to time be determined by or pursuant to authorization of the Board of Directors.

Section 4.2 Election and Term of Office. The elected officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held immediately before or after each annual meeting of the stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Subject to Section 4.3 of these Bylaws, each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until his or her death or until such officer shall resign.

Section 4.3 Resignation and Removal. Any officer may resign at any time upon written notice to the Corporation. Any elected officer may be removed by a majority of the members of the Board of Directors, with or without cause, at any time. The Board of Directors may delegate such power of removal as to officers, agents and employees not elected by the Board of Directors. Such removal shall be without prejudice to a person's contract rights, if any, but the appointment of any person as an officer, agent or employee of the Corporation shall not of itself create contract rights.

Section 4.4 Compensation and Bond. The compensation of the officers of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer in respect of other officers under his or her control. The Corporation may secure the fidelity of any or all of its officers, agents or employees by bond or otherwise.

Section 4.5 Chairman of the Board. The Chairman of the Board shall preside at all meetings of stockholders and of the Board of Directors. The Chairman of the Board shall be responsible for the general management of the affairs of the Corporation, shall make reports to the Board of Directors and the stockholders and shall perform all duties incidental to such office which may be required by law and all such other duties as are properly required by the Board of Directors. Except where by law the signature of the President is required, the Chairman of the Board shall possess the same power as the President to sign all certificates, contracts and other instruments of the Corporation which may be authorized by the Board of Directors. The Chairman of the Board shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

Section 4.6 President. The President shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of Board and preside at all meetings of stockholders and of the Board of Directors. The President may sign, alone or with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates, contracts and other instruments of the Corporation as authorized by the Board of Directors.

Section 4.7 Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board of Directors, the Chairman of the Board or the President may from time to time prescribe. In the absence or inability to act of the President, unless the Board of Directors shall otherwise provide, the Vice President who has served in that capacity for the longest time and who shall be present and able to act, shall perform all the duties and may exercise any of the powers of the President.

Section 4.8 Treasurer. The Treasurer shall have charge of all funds and securities of the Corporation, shall endorse the same for deposit or collection when necessary and deposit the same to the credit of the Corporation in such banks or depositaries as the Board of Directors may authorize. He or she may endorse all commercial documents requiring endorsements for or on behalf of the Corporation and may sign all receipts and vouchers for payments made to the Corporation. He or she shall have all such further powers and duties as generally are incident to the position of Treasurer or as may be assigned to her or her by the Chairman of the Board, the President or the Board of Directors.

Section 4.9 Secretary. The Secretary shall record all the proceedings of the meetings of the stockholders and directors in a book to be kept for that purpose and shall also record therein all action taken by written consent of directors in lieu of a meeting. He or she shall attend to the giving and serving of all notices of the Corporation. He or she shall have custody of the seal of the Corporation and shall attest the same by his or her signature whenever required. He or she shall have charge of the stock ledger and such other books and papers as the Board of Directors may direct, but he or she may delegate responsibility for maintaining the stock ledger to any transfer agent appointed by the Board of Directors. He or she shall have all such further powers and duties as generally are incident to the position of Secretary or as may be assigned to him or her by the President or the Board of Directors.

Section 4.10 Assistant Treasurers. In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. An Assistant Treasurer shall also perform such other duties as the Treasurer or the Board of Directors may assign to him or her.

Section 4.11 Assistant Secretaries. In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her.

Section 4.12 Delegation of Duties. In case of the absence of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any director.

ARTICLE V

Indemnification and Insurance

Section 5.1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she or a person of whom he or she is the legal representative is or was a director or an officer of the Corporation or is or was serving at the request of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of any other corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to any employee benefit plan (hereinafter an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the GCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including, without limitation, attorneys' fees, judgments, fines, excise taxes or penalties under the Employee Retirement Income Security Act of 1974, as amended, and amounts paid or to be paid in settlement) actually and reasonable incurred by such indemnitee in connection therewith; provided, however, that except as provided in Section 5.3 with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors.

Section 5.2 Right to Advancement of Expenses. The right to indemnification conferred in Section 5.1 shall include the right to be paid by the Corporation the expenses (including attorneys' fees) incurred in defending any such proceeding in advance of its final disposition (hereinafter an "advancement of expenses"); provided, however, that, if the GCL requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section 5.2 or otherwise.

Section 5.3 Right of Indemnitee to Bring Suit. If a claim under Section 5.1 or Section 5.2 is not paid in full by the Corporation within thirty (30) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (20) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suite brought by the indemnitee to enforce a right of an advancement of expenses) it shall be a defense that, and (ii) in any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the GCL. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or stockholders) to have made a determination prior to the commencement of such action that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the GCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suite brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article V or otherwise shall be on the Corporation.

Section 5.4 Non-Exclusivity of Rights. The right to indemnification and the advancement of expenses conferred in this Article V shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, provision of these Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 5.5 Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the GCL.

Section 5.6 Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and right to the advancement of expenses, to any employee or agent of the Corporation to the fullest extent of the provisions of this Article V with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

Section 5.7 Contract Rights. The rights to indemnification and to the advancement of expenses conferred in Section 5.1 and Section 5.2 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators.

ARTICLE VI

Common Stock

Section 6.1 Certificates. Certificates for stock of the Corporation shall be in such form as shall be approved by the Board of Directors and shall be signed in the name of the Corporation by the Chairman of the Board, the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. Such certificates may be sealed with the seal of the Corporation or a facsimile thereof. Any of or all the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

Section 6.2 Transfer of Stock. Transfers of stock shall be made only upon the books of the Corporation by the holder, in person or by duly authorized attorney, and on the surrender of the certificate or certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonable require. The Board of Directors shall have the power to make all such rules and regulations, not inconsistent with the Certificate of Incorporation and these Bylaws and the GCL, as the Board of Directors may deem appropriate concerning the issue, transfer and registration of certificates for stock of the Corporation. The Board of Directors may appoint one or more transfer agents or registrars of transfers, or both, and may require all stock certificates to bear the signature of either or both.

Section 6.3 Lost, Stolen or Destroyed Certificates. The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his or her legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements as it deems appropriate under the circumstances.

Section 6.4 Stockholder Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action.

If no record date is fixed by the Board of Directors, (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the date on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and (2) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of, and to vote at, such meeting and any adjournment thereof, or to exercise such rights in respect of any such change, conversion or exchange of stock, or to participate in such action, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any record date so fixed.

ARTICLE VII

Seal

Section 7.1 Seal. The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

Waiver of Notice

Article 8.1 Waiver of Notice. Whenever notice is required to be given to any stockholder or director of the Corporation under any provision of the GCL or the Certificate of Incorporation or these Bylaws, a written waiver thereof, signed by the person or persons entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. In the case of a stockholder, such waiver of notice may be signed by such stockholder's attorney or proxy duly appointed in writing. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice.

ARTICLE IX

Checks, Notes, Drafts, Etc.

Section 9.1 Checks, Notes, Drafts, Etc. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors or a duly authorized committee thereof may from time to time designate.

ARTICLE X

Amendments

Section 10.1 Amendments. These Bylaws may be amended, added to, rescinded or repealed at any time by the stockholders by vote at a meeting or by written consent without a meeting. The Board of Directors shall also have the power, by a majority vote, to alter or repeal any of these Bylaws, and to adopt new Bylaws. In the case of amendments by stockholders and notwithstanding the foregoing or any other provisions of these Bylaws or any provision of law which might otherwise permit a lesser vote or not vote, but in addition to any affirmative vote of the holders of any particular class or series of stock required by law, the Certificate of Incorporation or these Bylaws, the affirmative vote of the holders of at least 66 2/3 percent of the voting power of the then outstanding shares of Voting Stock voting together as a single class, shall be required to alter, amend or repeal Sections 2.2, 2.7, 3.2, 3.3, 3.5 and this Section 10.1 of these Bylaws, unless such amendments are approved by a majority of the directors of the Corporation not affiliated or associated with any person, other than Pamela M. Lopker or Karl F. Lopker, holding (or which has announced an intention to acquire)20% or more of the voting power of the Corporation's then outstanding voting capital stock, voting together as a single class.

Exhibit 4.1

ABnote North America 711 ARMSTRONG LANE COLUMBIA, TENNESSEE 38401 (931) 388-3003	PROOF OF: DECEMBER 1, 2010 QAD INC.
SALES: HOLLY GROWER 931-490-7660	WO 2781 LOT 1 FC
	OPERATOR: JB
	NEW

<u>COLORS SELECTED FOR PRINTING</u>: Logo SCANNED FOR PROOFING PURPOSES. INTAGLIO PRINT IN SC-7 DARK BLUE.

COLOR: This proof was printed from a digital file or artwork on a graphics quality, color laser printer. It is a good representation of the color as it will appear on the final product. However, it is not an exact color rendition, and the final printed product may appear slightly different from the proof due to the difference between dyes and printing ink.

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: ____OK AS IS ____ OK WITH CHANGES ____ MAKE CHANGES AND SEND

The Corporation shall furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock of the Corporation or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Corporation's Secretary at the principal office of the Corporation.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable Jaws or regulations:

TEN COM	-	as tenants in common	UNIF GIFT MIN ACT	-	.....Custodian .....
TEN ENT	-	as tenants by the entireties			(Cust) (Minor)
JT TEN	-	as joint tenants with right of suviviorship and not as tenants in common			under Uniform Gifts to Minors Act ..... (State)
			UNIF GIFT MIN ACT	-	..... (Cust) Custodian (until age).....)
					..... (Minor) under Uniform Transfers to Minors Act..... (State)

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____

_____

_____ Shares

of the Classroom A common stock represented by the within Certificate, and do herby irrevocably constitute and appoint

_____ Attorney

to transfer the said stock on the books of the within named Corporation with full power to substitution in the premises.

Dated _____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

_____

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE

GUARANTEE MEDALLION PROGRAM). PURSUANT TO S.E.C. RULE 17Ad - 15

ABnote North America 711 ARMSTRONG LANE COLUMBIA, TENNESSEE 38401 (931) 388-3003	PROOF OF: DECEMBER 1, 2010 QAD INC.
SALES: HOLLY GROWER 931-490-7660	WO 2781 LOT 1 BK
	OPERATOR: JB
	NEW

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: ____OK AS IS ____ OK WITH CHANGES ____ MAKE CHANGES AND SEND ANOTHER PROOF

ABnote North America 711 ARMSTRONG LANE COLUMBIA, TENNESSEE 38401 (931) 388-3003	PROOF OF: DECEMBER 1, 2010 QAD INC.
SALES: HOLLY GROWER 931-490-7660	WO 2781 LOT 2 FC
	OPERATOR: JB
	NEW

<u>COLORS SELECTED FOR PRINTING</u>: Logo SCANNED FOR PROOFING PURPOSES. INTAGLIO PRINT IN SC-15 MAROON.

COLOR: This proof was printed from a digital file or artwork on a graphics quality, color laser printer. It is a good representation of the color as it will appear on the final product. However, it is not an exact color rendition, and the final printed product may appear slightly different from the proof due to the difference between dyes and printing ink.

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: ____OK AS IS ____ OK WITH CHANGES ____ MAKE CHANGES AND SEND ANOTHER PROOF

The Corporation shall furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock of the Corporation or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Such requests shall be made to the Corporation's Secretary at the principal office of the Corporation.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable Jaws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	-	.....Custodian	.....
TEN ENT	- as tenants by the entireties			(Cust)	(Minor)
JT TEN	- as joint tenants with right of suviviorship and not as tenants in common			under Uniform Gifts to Minors Act ..... (State)	
		UNIF GIFT MIN ACT	-	..... (Cust)	Custodian (until age).....)
				..... (Minor)	under Uniform Transfers
				to Minors Act..... (State)	

Additional abbreviations may also be used though not in the above list.

FOR VALUE RECEIVED, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

_____

_____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

_____

_____

_____Shares of the Classroom B common stock represented by the within Certificate, and do herby irrevocably constitute and appoint

_____Attorney to transfer the said stock on the books of the within named Corporation with full power to substitution in the premises.

Dated _____

X _____

X _____

NOTICE: THE SIGNATURE(S) TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

Signature(s) Guaranteed

_____

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM). PURSUANT TO S.E.C. RULE 17Ad6 - 15

ABnote North America 711 ARMSTRONG LANE COLUMBIA, TENNESSEE 38401 (931) 388-3003	PROOF OF: DECEMBER 1, 2010 QAD INC.
SALES: HOLLY GROWER 931-490-7660	WO 2781 LOT 2 BK
	OPERATOR: JB
	NEW

PLEASE INITIAL THE APPROPRIATE SELECTION FOR THIS PROOF: ____OK AS IS ____ OK WITH CHANGES ____ MAKE CHANGES AND SEND ANOTHER PROOF

Exhibit 10.9(b)

SECOND AMENDMENT TO CREDIT AGREEMENT

This SECOND AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), dated as of April 11, 2011, is entered into by and between QAD INC., a Delaware corporation (the "Borrower"), and BANK OF AMERICA, N.A. (the "Lender").

RECITALS

A. The Borrower and the Lender are party to that certain Credit Agreement dated as of April 10, 2008, as amended by that certain Amendment and Waiver to Credit Agreement dated as of April 10, 2009 (as so amended and as further amended, restated, extended, supplemented or otherwise modified from time to time, the "Credit Agreement"), pursuant to which the Lender has extended certain credit facilities to the Borrower.

B. The Borrower has requested that the Lender agree to certain amendments with respect to the Credit Agreement, and the Lender has agreed to such request, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. Subject to the terms and conditions hereof and with effect from and after the Effective Date, the Credit Agreement shall be amended as follows:

(a) Section 1.01 of the Credit Agreement shall be amended at the definition of "Maturity Date" by amending and restating such definition as follows:

"Maturity Date" means June 9, 2011.

3. Representations and Warranties. The Borrower hereby represents and warrants to the Lender as follows:

(a) No Default or Event of Default has occurred and is continuing.

(b) All representations and warranties of the Borrower contained in Article V of the Credit Agreement are true and correct on and as of the Effective Date after giving effect to this Amendment, except to the extent that any such representation and warranty specifically relates to an earlier date, in which case they shall be true and correct as of such earlier date after giving effect to this Amendment.

4. Effective Date. This Amendment will become effective on the date (the "Effective Date") when the Lender shall have received from the Borrower a duly executed original (or executed facsimile or electronic copy) counterpart to this Amendment.

5. Reservation of Rights. The Borrower acknowledges and agrees that neither the execution nor the delivery by the Lender of this Amendment shall (a) be deemed to create a course of dealing or otherwise obligate the Lender to execute similar amendments, consents or waivers under the same or similar circumstances in the future or (b) be deemed to create any implied waiver of any right or remedy of the Lender with respect to any term or provision of any Loan Document.

6. Miscellaneous.

(a) Except as expressly amended or modified hereby, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as modified by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) **THIS AMENDMENT IS SUBJECT TO THE PROVISIONS OF SECTION 9.14 AND SECTION 9.15 OF THE CREDIT AGREEMENT RELATING TO, INTER ALIA, GOVERNING LAW, SUBMISSION TO JURISDICTION, VENUE AND WAIVER OF THE RIGHT TO TRIAL BY JURY, THE PROVISIONS OF WHICH SECTIONS ARE BY THIS REFERENCE INCORPORATED HEREIN IN FULL.**

(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Each of the parties hereto understands and agrees that this document (and any other document required herein) may be delivered by any party hereto or thereto either in the form of an executed original or an executed original sent by facsimile transmission to be followed promptly by mailing of a hard copy original, and the receipt by the Lender of a facsimile transmitted document purportedly bearing the signature of the Borrower or one of the other parties hereto, as applicable, shall bind the Borrower or such other party, respectively, with the same force and effect as the delivery of a hard copy original. Any failure by the Lender to receive the hard copy executed original of such document shall not diminish the binding effect of receipt of the facsimile transmitted executed original of such document of the party whose hard copy page was not received by the Lender.

(e) This Amendment contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended except by a written agreement executed by the Borrower and the Lender.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(g) The Borrower covenants to pay to or reimburse the Lender, upon demand, for all reasonable and documented costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, negotiation, execution and delivery, and enforcement of this Amendment.

(h) This Amendment shall constitute a "Loan Document" under and as defined in the Credit Agreement.

[*Remainder of this page intentionally left blank*]

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

QAD INC., as the Borrower

By: /s/ DANIEL LENDER

Name: Daniel Lender

Title: CFO

BANK OF AMERICA, N.A., as the Lender

By: /s/ KEVIN MCMAHON

Name: Kevin McMahon

Title: Managing Director

Exhibit 21.1

QAD Inc.

LIST OF REGISTRANT'S SUBSIDIARIES

Percentage Owned by QAD Inc.	Country of Organization
QAD Australia Pty. Limited — 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 S.A.S. — 100%	France
QAD Europe GmbH — 100%	Germany
QAD Asia Limited — 100%	Hong Kong
QAD India Private Limited — 100%	India
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 Europe — Software e Servicos, Unipessoal, Limitada — 100%	Portugal
QAD Singapore Private Limited — 100%	Singapore
QAD Software South Africa (Proprietary) Limited — 100%	South Africa
QAD Europe S.l. — 100%	Spain
QAD Europe SA/AG — 100%	Switzerland
QAD (Thailand) Ltd. — 100%	Thailand
QAD EMEA Limited — 100%	United Kingdom
QAD Europe Limited — 100%	United Kingdom
QAD Holding Limited — 100%	United Kingdom
QAD United Kingdom Limited — 100%	United Kingdom
Enterprise Engines Inc. — 100%	USA
QAD Brazil, Inc. — 100%	USA
QAD Holdings Inc. — 100%	USA
QAD Japan Inc. — 100%	USA
QAD Ortega Hill, LLC — 100%	USA

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
QAD Inc.:

We consent to the incorporation by reference in the registration statements on Form S-8 (File Nos. 333-160125, 333-137417, 333-66610, 333-48381, and 333-35367) of QAD Inc. of our reports dated April 15, 2011, with respect to the consolidated balance sheets of QAD Inc. and subsidiaries as of January 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended January 31, 2011, the related financial statement schedule, and the effectiveness of internal control over financial reporting as of January 31, 2011, which reports appear in the January 31, 2011 annual report on Form 10-K of QAD Inc.

/s/ KPMG LLP

Los Angeles, California
April 15, 2011

Exhibit 31.1

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, 2011

/s/ KARL F. LOPKER
Karl F. Lopker
Chief Executive Officer
QAD Inc.

Exhibit 31.2

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, 2011

/s/ DANIEL LENDER
Daniel Lender
Chief Financial Officer
QAD Inc.

Exhibit 32.1

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, 2011 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, 2011

/s/ KARL F. LOPKER
Karl F. Lopker
Chief Executive Officer
QAD Inc.

Exhibit 32.2

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, 2011 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, 2011

/s/ DANIEL LENDER
Daniel Lender
Chief Financial Officer
QAD Inc.